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EXPLANATORY NOTE

The vast quantity of literature concerning municipal ownership, much of which has been produced within the last few years, is in itself complete evidence of the rapidly widening interest in our public municipal utilities. The material here collected has been gathered and arranged for debaters, students of municipal problems, and others desiring compact information on municipal ownership.

The arrangement is natural and logical. First occurs the brief to acquaint the student with the scope and general analysis of the question and the arguments pro and con in outline form. The bibliography follows, sufficiently complete to include all important material, yet not so inclusive as to be bewildering to the inexperienced investigator. Annotations have been added where they would be of real value to the student. The body of the volume is a collection of reprints of the leading articles on the subject so selected as to cover all phases of the question. Special mention is given to the aspect of state regulation by commission, which has secured a strong following, as an alternative to municipal ownership where unsatisfactory conditions in the problem of utilities prevail. Another noteworthy development in thought is recorded in the unique experiment of Strassburg, Alsace, in the dual or mixed ownership and management of the lighting and transportation systems, a synthesizing experiment significant in the harmonizing of both extremes in the utility ownership problem.

This volume is called the Third Edition inasmuch as the present compiler has retained a large part of the material appearing in Editions One and Two, which were compiled jointly by Joy E. Morgan and Edna D. Bullock. Many new articles have been added, however, and the brief and bibliography have been enlarged and brought down to date.

J. E. J.

April 17, 1918.

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BRIEF

Resolved, That municipalities in the United States should own and operate plants for supplying light, water, and transportation.

INTRODUCTION

I. The question is important.
   A. Transportation is inseparably connected with questions of congestion of population, slums, and tenements, and water and light concern intimately the health and comfort of the people and the safety of the community.
   B. Stupendous financial interests are involved.
   C. A vast majority of every community is directly concerned.

II. It is generally granted.
   A. That there are three methods by which municipalities may deal with natural monopolies.
      1. They may grant private companies franchises to build and operate plants.
      2. They may build or purchase plants and lease them to private companies for operation.
      3. They may own and operate the plants themselves.
   B. In American municipalities the first method is almost universal in the case of street railways and quite common in the case of water and lighting plants.
   C. The question is whether the last method is preferable to the others.

III. The solution of the question seems to present four main issues.
   A. Is the ownership and operation of light, water, and transportation plants a municipal function?
   B. Is the system of private ownership of natural municipal monopolies in the United States objectionable?

C. Would the objectionable features of private ownership, if they exist, be remedied by municipal ownership and operation?

D. Does the experience of this and other countries show that municipal ownership is more successful in practice than private ownership?

AFFIRMATIVE

The Affirmative believe that municipalities should own and operate their light, water, and transportation plants, for,

I. The ownership and operation of these utilities is a proper function of municipal government.

A. The ends of government embrace all the benefits and all the immunities from evil which government can confer.

B. The franchises under which they are carried on are based on public grants of privilege in behalf of the territory operated in.

C. Community cooperation in public enterprise, as expressed in municipal ownership of utilities, is a proper right of free people as opposed to private enterprise for profit.

II. Private ownership is objectionable because it gives rise to great evils.

A. It is monopolistic.

1. Competition is rarely practical.

a. The financial outlay is too great.

b. Franchise rights are unequal.

2. Competing utilities always tend to merge.

B. The public is exploited.

1. Enormous dividends are obtained from franchises.

a. The rates are as high as traffic will bear.

b. There is a heavy amount of watered stock.

c. Service is costly to the small consumer.

2. Economies are made in service for the benefit of stockholders.

a. Straphanging, unsafe water, low or medium light standards, inadequate or deteriorated equipment are not uncommon.

b. Extensions into outlying districts are made reluctantly, and as financial considerations rather than social welfare dictate.

C. It tends to corrupt public morals.
   1. Bribery and graft are usual.
      a. The companies spend large sums to secure concessions and immunities in the interests of their holdings.
   2. Weak municipal governments result, for
      a. Aldermen, officials and influential citizens are controlled to a more or less extent.
   3. Civic spirit is dampened.
      a. It is felt to be futile to combat strongly intrenched interests.
      b. Public opinion is insidiously deluded.

D. Local regulation is a failure.
   1. There have been unceasing efforts to regulate utilities in the past.
   2. Efforts to regulate are blocked by delays and litigations.
   3. State law deprives many local communities of control over their utilities.

E. State regulation is unsatisfactory.
   1. State commissions are too remote from local interests.
      a. They are hard to reach.
      b. They are more indifferent to local feeling.
      c. Their work is too broad for the detail of local problems.
   2. The commissions are not free from undue influence from utilities companies.
      a. They are even more easily reached than local boards.
   3. Its strongest alternative, municipal ownership, is made even more remote.
      a. State control tends to political intrenchment.
      b. Extended capitalization and swollen valuation make the utilities harder to take over.
   4. It tends to atrophy local organs and abilities.

III. Municipal ownership remedies the evils of private ownership and is followed by great advantages.

A. The service is improved.
   1. Taxpayers will demand reasonable service.
B. It is financially beneficial.
   1. Profits go to rate reduction.
   2. Cost of regulation is saved.
C. Labor is benefited.
   1. Better wages and hours prevail in civic service.
   2. There are fewer strikes and labor troubles.
D. Advantages accrue to the community.
   1. It is more free from political corruption.
   2. Outlying development is better.
   3. Civic standards are elevated.

IV. Municipal ownership and operation is more successful in practice than private ownership and operation.
A. In operating water plants.
B. In operating gas plants.
C. In operating common carriers.

NEGATIVE

The Negative believe that municipalities should not own and operate their light, water, and transportation plants, for,

I. Municipal ownership of these utilities is unwise in theory.
A. It is not a proper function of government.
   1. It is not necessary for the promotion of intelligence, the care of the unfortunate, or to establish justice.
B. It increases government interference in the field of private action.
C. It deprives industry of the moral and economic advantage of self interest.

II. The burden the community would undergo by municipal ownership and operation is not called for, for
A. Private companies can meet every reasonable requirement.
   1. They have had widespread success in efficient management and service.
   2. Many plants have already abandoned public for private ownership.

3. Companies are already tending to give the best possible service under the pressure of publicity, regulation, public spirit, and self interest.
4. State commissions in many cases give the necessary remedy for private utility operation abuses.
   a. Over two-thirds of the state laws provide for them.

III. Municipal ownership is not a desirable remedy.
   A. It is financially disastrous.
      1. Waste and extravagance result.
         a. Those in charge have little skill or experience.
         b. They have little interest in an economic administration.
      2. There is a constant tendency to rely on the city's ability to tax to make up deficiencies.
      3. There is slight chance of extra revenue.
         a. The clamor for low rates precludes the possibility of extra revenue.
   B. It is inefficient.
      1. It is not awake to new inventions.
      2. The service does not secure the best men.
         a. Salaries are insufficient.
         b. Opportunity for advancement is too meager.
      3. The service is subject to the change of political parties.

IV. The present status of American city government precludes further consideration of the question.
   A. Most American cities have failed to do efficiently what they already have to do.
      1. Jobbery and corruption are common.
      2. The police service is poor.
      3. Laws are not enforced.
   B. To add to municipal functions is simply to aggravate existing conditions and to delay reforms indefinitely.

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SELECTED ARTICLES ON MUNICIPAL OWNERSHIP

INTRODUCTION

Present Status of Municipal Ownership

The municipality, as we are familiar with it in America today, is, like the great corporation, a product of our wonderful development. Early statesmen did not and could not forsee the possibilities, problems, and dangers that characterize present day municipal institutions. The lack of similarity between the conditions that prevail in our different cities renders municipal problems more difficult. Each city is organized under a different charter and is a problem in itself. A plan that would be successful in one might entirely fail in another.

There is a growing tendency, however, to extend municipal activity to include those enterprises that involve moral, hygienic, social, and educational questions; altho there is difference of opinion as to just *how much* importance should be given these various considerations.

Functions of the Municipality

The state and federal governments must solve those political and economic questions that in their nature are broad in scope and policy and require extended legislation, administration, and adjudication. On the other hand, the city works in a limited territory and is chiefly concerned with the details of its own needs and the problems growing out of those needs—problems greatly intensified by the larger number of people crowded into a small area. For example, the ownership of interstate railroads creates a problem less pressing than the ownership of city transportation facilities. It may be necessary for the city to own and operate the latter in order to relieve congested conditions and to alleviate the slum and tenement evils. No such reasons could be urged for the ownership of interstate railways.

Authorities and the Issue

The arithmetical facts as to the financial status of municipal ownership may be gleaned by the student from this book and from many other sources. Here again, authorities will not agree as to the figures or their bearing on the issue. Each authority writes from his own point of view and gathers data and interprets it to favor the conditions that he wishes to prevail. It is for the student to study each case painstakingly and thoroly before he makes his conclusion. He must not assume that because municipal ownership has been a success in one community it will succeed in another or *vice versa* until he has shown that the conditions which determine its success or failure are the same in both cases.

The issue before the student is: Are the utilities in question of such a nature that their operation is a municipal function and, all things considered—condition of municipal politics and finance, the cost of operation, and the probabilities of success—is it better morally, socially, and economically for American municipalities to own and administer these utilities?

GENERAL DISCUSSION

MUNICIPAL PUBLIC UTILITIES. GENERAL DISCUSSION OF REGULATION AND PUBLIC OWNERSHIP[1]

Professor Edward W. Bemis, of the Bureau of Economic Research, says that the problem of municipal public utilities is made important by the fact that competition has broken down under them and that they are virtually monopolies. The same problems are already confronting us in cities as will later become conspicuous regarding railroads, and the experience in the management of public utilities in cities will be a valuable lesson. The magnitude of the problem may be judged from the fact that the capital of the privately owned water, gas, and electric plants in the country is nearly $1,400,000,000, while the capital of street railways is $1,800,000,000. The further fact that certain syndicates and individuals are getting controlling interests in the street railway, gas, and electric-light companies of very many different cities increases the importance of the problem.

Professor Bemis declares that competition in the street railways, electric light, and water supply business has almost entirely broken down. Efforts have been made in the most important cities in this country to maintain competing companies, but in nearly every instance the experiment has ended in consolidation. The tendency toward consolidation has been slightly less marked in the case of electric-light companies, but consolidation has still gone on very rapidly, and in most cities street lighting and household lighting are furnished by a single corporation, altho large establishments are able to supply themselves by means of private plants.

Consolidation of plants of this sort results in great economies. There is a saving in office force, in avoiding the duplication of mains, pipes, and wires, in the collection of bills, and in other ways.

[1] From United States Industrial Commission. 1901. Report. Volume IX. Introduced. pp.239-41.

Professor Bemis says that in recent years there has been a marked tendency toward the concentration of ownership of plants in different cities and of plants of different character in the same city. Thus in New York City the Consolidated Gas Company increased its stock in July, 1900, to $80,000,000 and bought up the other gas and electric light companies of that city. The same syndicate has also a controlling interest in the street surface railways of New York, altho the elevated roads are in the hands of a different syndicate. The Elkins-Widener-Whitney syndicate also controls the street railways of Philadelphia, Chicago, and a rapidly increasing number of other cities. Similarly, the United Gas Improvement Company of Philadelphia has a controlling interest in the gas companies of over 40 different cities, among them Jersey City, Kansas City, and Atlanta. The officers of the Standard Oil Company have also a very large interest in gas and street railway enterprises all over the country. In Chicago the surface railroads and several of the elevated railroads have been at times in the past, and doubtless will be in the future, owned by a single syndicate.

Mr. Allen Ripley Foote advocates the consolidation of the gas and electric-light plants of a municipality, and also the consolidation of the electric street railways with the electric-light plants. It would make a saving in the cost of management and would cheapen the cost to the consumer.

In dealing with a consolidated syndicate, however, there should be thoro control of capitalization to prevent stock watering, and thoro publicity of accounts. Without such system of public accounting consolidation might not be beneficial to anybody but the syndicates themselves.

Professor Bemis says that there are three possible methods of solving the problem of public municipal utilities. One is to regulate the private operation of them; another is direct public ownership and operation, while a third is public ownership with private operation. Regulation of private ownership has been most advanced in England and Massachusetts; public ownership has gone furthest in England, while the system of public ownership and private operation scarcely exists in the United States, but is very common in England.

Professor Bemis declares that there are certain evils and dangers in public management to be carefully guarded against, but he still believes that progress lies in the direction of public

management of municipal utilities. Private companies in England do not oppose the public as they do here. Since the Brooklyn Bridge Railway has been taken over by private management there is a great deal more dissatisfaction than ever before, while under public management for many years it had given universal satisfaction.

Professor Bemis holds that the principle of municipal ownership of gas, electric lights, and street railways is the same as that in respect of water supply, which is generally considered a public function, but that it is more a question of expediency as to how fast we should go in relation to those utilities. He does not believe all industries should be owned and controlled by the people, but where competition breaks down of its own weight and monopoly thus results, then the public must control it in some way. We should begin by learning thru publicity of accounts what profits these monopolies are making and by seeing what can be done thru regulation and taxation; but experiments in municipal operation should be at once undertaken and the causes of success or failure carefully studied.

Mr. Foote thinks that in a sense the socialist idea is the basis of the initial point in the advocacy of municipal ownership. The people feel that the public should have the benefits and the profits, if there are any, in the operation of the quasi-public plants, and that private corporations have been making excessive profits and have exercised more or less venality, not only in the securing of their franchise, but also in the operation of the plants.

Mr. Foote asserts that it is impossible to compare the results of a municipal or political monopoly with those of the properly supervised private industrial monopoly. When the water works are under private ownership everything has to be paid for by private capital in the way of extending lines and making improvements, etc., and the rates have to be sufficient to pay all operating expenses and whatever profit is made. If the municipalities should buy these works, they would frequently reduce the price to the consumer, but would make up the difference by taxation. They would especially extend the service lines and charge the cost to special improvement assessments on property rather than to consumers. The city does not have to earn profits.

As to whether there is any advantage in municipal ownership, assuming honesty of operation in both cases and the same elements of cost, etc., there are not sufficient data at hand to reach

a conclusion, and they cannot be obtained without having the accounts of the municipalities and quasi-public corporations public and uniform. The witness, however, does not think the business of the municipalities of the country is yet sufficiently developed to permit the satisfactory operation of their public utilities by the taxpayers. As yet it always costs more to do public business than to do private business of the same nature.

Mr. Foote says further that if it were possible to get men sufficiently patriotic to work for the people as a whole as loyally as they would in their own business, municipal ownership would be very desirable; but such a condition does not exist, and when the factor of self-interest is eliminated from industrial management there is eliminated at the same time the factor of efficiency. The witness has never yet seen an industry so well managed by the public but that a set of private men, having the same opportunities in the details of management, could operate it and make a profit, and give the price as low, if not lower.

Mr. Foot believes, however, that there are more reasons why waterworks should be managed by municipalities than any other of the public utilities, because there are more regulations required in the operation of these plants that partake of the nature of police regulations. He sees no reason, indeed, why a small municipality might not operate its own waterworks plant more economically than a private company, because in a small plant the duties of the officials of the private company would be so light that to pay any sort of a salary to them the cost of operation would be high; whereas, if the plant were operated by a municipality, the work could be performed by officials of the municipality who had other municipal duties to do.

Mr. Foote says that if the theory of municipal ownership should be adopted he would recommend the management by the municipality of every public utility where an economic gain could be made to the public; but he would still insist that the accounts of the municipalities should be kept in such a way that it could always be ascertained what the actual cost of construction and of the management of the plant would be. He instances several cases of municipalities owning and operating certain utilities in which the accounts were so kept that while on the face of the records there seemed to be great economy in such operation, yet as a matter of fact they had been operating less cheaply than a private corporation could have done.

Professor Bemis asserts that whenever there has been a failure of any municipal public-service plant, such failure can be traced generally to the spoils system in politics or to a lack of general business sense in the council, which has led to the selection of poor managers, or to the plant not being properly equipped. A proper reform in the civil service would show the people that they could improve the government, and have it practically useful in a cooperative way, by cheapening transportation, fuel, light, telephone, and telegraph service. Moreover, an increase in public functions increases the popular interest in having the government better managed.

Professor Bemis thinks the efforts of the influential and wealthy companies to keep their own old franchises, or get better ones, or to escape their share of taxation, are a potent source of municipal corruption. A very intelligent employee of a certain gas company informed him that all the employees in that company had to be recommended to their places by the political boss of their precinct, and had to keep up their membership in the political organization in order to retain their positions. When the Philadelphia Gas Works were still under public management, they were buying 40 per cent of their gas from a private company, and they always took their employees at the recommendation of the Philadelphia alderman, and did not keep them longer than they could help. Their motto was: "The more different people we can hire in a given month the more aldermen we can please the more times." It would be easier to convince the people of the need of civil-service reform and business efficiency than it would to get rid of the demoralization connected with this relation of private companies to legislative and administrative bodies.

Mr. Foote advocates a rigid civil-service reform in municipal affairs in case municipalities should take over to themselves the operation of their public utilities. He believes that the employees engaged in the operation of utilities should be retained for life, during good behavior. The witness declares that he is somewhat different from the average civil-service reformer in that he does not believe that it is of any interest to the public how a man gets his position, but it does interest the public what he does after he gets it. Therefore primary appointments should be made in any way that would seem best—not necessarily by examinations—but there should be a probationary period of six months before

the employee goes upon the regular roll. Promotion should be made from the lower to the higher grades from those in the service, and not from the outside, thus creating a stimulus for efficient work.

Professor Bemis says that the tendency of public employment is to improve labor conditions. The hours of labor are usually reduced. The municipalities in England attempt to pay the standard trade-union rate of wages. Tramways when operated by private companies had refused to recognize unions and had worked their men very long hours; but as soon as the municipalities took hold of the plants, union wages and hours, etc., were introduced.

PUBLIC SERVICE ENTERPRISES[1]

Ambassador James Bryce spoke before an audience of Chicago business men on the policy to be pursued by a city in relation to public service enterprises as follows:—

"It is a pre-condition to the giving to a municipal authority of any control over public work and public utilities that are not necessarily involved in the varying existence of that municipal authority, that the authority itself should be honest and capable—that is to say that the administrators should be upright and intelligent men. Whether they are will depend on the conditions of the particular city. It will depend mainly on the public spirit of the citizens and the sense of civic duty which animates them. If there is a lively sense of public duty and of the responsibility of the individual citizen for the good government of the community, if he gives an honest vote based on his judgment of the character of the candidates; if he watches the conduct of those who administer on its behalf and calls them to strict account for any misdoings, it will obviously be safe to intrust the municipality functions which otherwise it might be desirable to withhold."

That all this is an indispensable condition of success in municipal enterprises, no one will dispute; and it is equally to be admitted that few, very few, American cities can meet this precondition of a successful public ownership policy.

But there is one point to be noted in this connection which Mr. Bryce did not touch upon and which is very important in any consideration of the subject. It is this—that the existing close limitations upon the functions of municipal government in America are well calculated to injure that public spirit of the citizen and impair his active sense of civic duty which are so

[1] Springfield Republican. April 10, 1907.

essential to good government in any case; while it may most plausibly be asserted that an extension of those functions to the city ownership and operation of such public services as have been mentioned would tend to cultivate strongly that spirit of individual watchfulness over and concern in the conduct of the government which are now so lamentably lacking in American cities.

REPORT ON MUNICIPAL AND PRIVATE OPERATION OF PUBLIC UTILITIES[1]

Messrs. Edgar and Clark in closing their review summarize their opinions as follows:—"Our investigation has determined with certainty many heretofore mooted questions. We believe no intelligent reader of this Commission's work will fail to conclude that it clearly proves municipal ownership to be productive of many and serious ills, with little or no compensating good. The writers of these chapters agreeing, we believe with the other members of the Committee of Twenty-one, that public service companies should reasonably be regulated and afforded the protection that comes with regulation, and appreciating that the Committee was not appointed or constituted to consider methods of regulation, nevertheless desire to record their opinion that some form of regulation of private companies be adopted in each of the United States. What that form should be this Commission is not prepared, by any investigation or study it has made, to suggest. As it has always been the function and duty of government to insure that individuals shall deal justly with their fellows, it is now the function and duty of government to protect the governed against injustice on the part of these associations of individuals working under the name of public service corporations. Any government that is too feeble or corrupt to control with justice the conduct of a public service corporation has little prospect of being able to itself supply such public service with efficiency and justice. Our duty is to elect to office men of intelligence and integrity to govern efficiently, honestly and justly; men who can and will curb the unjust aggressiveness of the individual, or of the voluntary association of individuals, and who can and will compel each to bear its share of the bur-

[1] National Civic Federation. Vol. I, p. 441.

dens of government, and give in price, service or otherwise a proper consideration for special privileges enjoyed."

MUNICIPAL OWNERSHIP AND OPERATION; THE VALUE OF FOREIGN EXPERIENCE[1]

A final financial lesson, of a negative rather than of a positive character, relates to the policy to be adopted in fixing the cost of service to the consumer. It has been pointed out time and again that the industries usually referred to as public-service industries occupy an exceptional position because of the special franchises or privileges necessary for their operation. While this is true, a far more important fact is often lost sight of—namely, that these industries are capable of subserving certain broad social purposes, and that it is within the power of the municipality so to adjust the cost of service that these larger social ends will be attained. It is one of the common-places of social economy that the transportation service is the best means of relieving congestion of population, and that the gas supply can be made one of the most effective means of influencing the habits and customs of the people. In the transportation service the plan adopted in most of the large European municipalities has been to adjust the fares under a zone tariff, thus increasing the cost of service with the increase in the length of ride. Although this has given satisfactory financial results, it has prevented the municipalities from performing their greatest service to the social well-being of the community, namely, to induce the population to move into outlying and less-congested sections of the city. It is true that the uniform fare of our American cities is unnecessarily high, and is no doubt a considerable tax on the short-distance passenger, but it is a tax which ultimately redounds to the social welfare of the community in contributing to that more equal distribution of population so necessary to the social advance of the community. In this matter of the adjustment of transportation rates to the attainment of social ends, German municipalities are considerably in advance of the English, but they have all much to learn from the conditions prevailing in our American cities.

[1] By Leo S. Rowe. American Journal of Sociology. 12:241-53. September, 1906.

As regards the gas supply, it is evident that a reduction in the price of gas so as to permit the substitution of the gas-stove for the coal-stove is certain to have a far-reaching influence on the diet of the poorer classes. In this respect the British municipalities have done splendid service. The readiness with which food is heated on the gas-range, as compared with the effort to start a coal-fire makes it possible to introduce a far larger proportion of warm cooked food into the workingman's diet. The little that has been done in this direction is sufficient to show the tremendous power of the city in furthering social welfare.

These are but a few of the many instances in which the municipality, in the management of its public-service industries, is able profoundly to influence the industrial efficiency, the social welfare, and the general well-being of the community. European municipalities have all begun to appreciate the power which they can wield in this way. Although the sum-total of actual achievement is somewhat meager, the general principle involved is one of the greatest moment; the full import of which we have but begun to appreciate in the United States.

Whatever lessons may be drawn from foreign experience—and they are numerous and important—no one will contend that this experience can do more than throw an interesting sidelight on the problems that confront our American cities. The final choice between private and public ownership and operation must be made on the basis of our own peculiar conditions. In this choice, factors which are entirely absent in European countries will play an important part. We must recognize, in the first place, that the attitude of the American people toward the city is totally different from that which prevails in the countries of Europe. With us city government is a negative rather than a positive factor. We look to it for the protection of life and property, but it is with considerable reluctance that we accept any extension of function beyond this limited field. In Europe, on the other hand, the city is a far more positive factor in the life and thought of the people. As new needs arise, the inhabitant of the European city looks to the community in its organized capacity for the performance of each service. With us in the United States the presumption is against any extension of municipal functions, and it requires considerable pressure to induce the population to accept an increase in municipal powers.

MUNICIPAL OWNERSHIP OF ENGINEERING UTILITIES[1]

In view of the present spirit of unrest and discontent regarding the operation of public utilities in the United States, leading to the agitation for municipal ownership of enterprises hitherto mostly conducted by associations of private capital, the thoughtful address delivered before the National Electric Light Association by Mr. Everett W. Burdett demands attention.

Mr. Burdett admits that there has been good reason for adverse criticism, and refers to the manner in which, in certain instances, there has been just objection to the manner in which corporate organizations have abused the confidence which has been placed in them. This, however, is but one side of the question, and the other side should be given fair consideration, before the advisability of transferring the control of public utilities to municipal control should be conceded.

"Forgetting the beneficent results which have been obtained only through the accumulation of great wealth derived from corporate organizations, the dissatisfied citizen sees only the abuses of financial and corporate power of which he has been, or imagines himself to be, the victim. The very word 'corporation' has come to have an opprobrium of its own.

"And yet, of course, this wholesale distrust and condemnation of wealth and corporate power is unreasonable. It loses sight of the fact that we are unable to assert from what other source the people at large would have derived the blessings which have come from the establishment and maintenance of the almost countless hospitals, libraries, colleges, parks, museums and special funds for the encouragement of learning, the promotion of science, the reward of courage and endeavor, and the various other beneficent uses for which they have been established and maintained by private wealth, largely derived from corporations. They forget that it has been only by the uniting of the funds of the rich and the savings of the poor in corporate organizations that the country has been developed by the establishment and exploitation of numberless forms of industrial enterprises, which have given employment to labor, activity and

[1] By Everett W. Burdett. Engineering Magazine. 31:741-3. August, 1906.

volume to trade, and a market for all the products of our soil and all the talents of our people..

"In electrical enterprises the central station electric lighting investment in the United States alone already aggregates 700 million dollars, involving an annual operating expense of nearly or quite 100 millions, distributed among all classes of workmen and through every artery of trade. The census reports show that in the single year 1904 there was an output of new electrical apparatus of the value of more than 150 millions. There are nearly 5,000 central electric lighting stations. There are 23,000 miles of electric railway, carrying each year over 5,000 million passengers. A network of nearly 300,000 miles of steam railroad gridirons the country, transporting upward of 750 million passengers annually. Spoken words are transmitted through more than five million miles of wire, by the use of more than three million telephones, by which more than 5,000 million messages are transmitted yearly.

"All these wonders we owe to corporations. They have given free play to the enterprise and individual energy of our people, and have made that enterprise and energy vastly more powerful and effective than it otherwise could possibly have been. They have enabled the man of small means to do a part of the world's work by joining his savings with the capital of his wealthier neighbor. They have encouraged thrift and spirit of investment. They have advanced civilization and brought to every man's door the diversified products of our own and other countries."

Mr. Burdett calls attention to the fact that the principal beneficiaries of the development of corporate organizations have been, not the organizers, managers, and stockholders of these enterprises, but the general public, and that the community at large has obtained vastly greater benefits from corporate enterprise than have those whose money has made them possible. A comparison of dividends paid with services rendered shows the truth of this statement, and demonstrates that the tax-gatherer, the employé, and the general public have each and all reaped rewards vastly greater than have been realized by the stockholders in the enterprises. The existing widespread agitation for the municipal ownership and operation of public utilities may really be attributed to the influence upon the popular mind of the widespread dissatisfaction and resentment occasioned by the

abuses of great wealth and corporate facilities. To this must be added the skilful use of this dissatisfaction by politicians, seeking to turn public opinion to the advancement of their own ends.

"In pointing out the fallacy of adopting municipal ownership in the United States on the strength of its alleged success abroad, the first thing which is to be suggested is the danger which always lies in the offhand adoption of foreign methods, laws or practices in another country. It can seldom be done successfully. Differences in political, economic or social conditions almost always exist which render the transplanting of the customs or methods of one country into another inexpedient.

"As contrasted with American municipal service, that abroad is less political and more business-like in its character, more certain in its tenure, more continuous in its service and more disinterested in its activities. Its desirable features are not only secured and protected by law, but are demanded by public sentiment. While the raw material is perhaps as good or better in the United States than in the European cities, it is handicapped in its efficiency by its political character and the uncertainty of its tenure. The American municipal servant never knows how long he is to be permitted to hold his palce and is subject to constant changes in policy and supervision. The only thing he can be reasonably sure of is that his head will ultimately drop into the basket. This system, for system it has come to be, may perhaps prevent dry rot and some of the evils of bureaucracy, but it is at the expense of efficient public service."

An examination of the operation of municipal ownership in Great Britain does not give positive assurance as to the success or failure of the system in the United Kingdom. In some instances, in electric lighting, for example, a little more than one-half of the municipal undertakings have showed a profit, while a much larger proportion of private enterprises have been found profitable. It is not by financial returns alone, however, that a system is to be judged. A well managed system shows its efficiency by the extent and nature of its development, by the completeness of the public service rendered, and by the real additions to the wealth of the community which are effected by its operation. Judged by this standard the operation of such utilities as electric lighting, telephone service, electric power distribution, and the like, by municipalities, cannot compare in

efficiency with the work of private corporations. In support of this view Mr. Burdett refers to the action of the Institute of Electrical Engineers to endeavor to overcome the restrictive action of local authorities upon the development of the electrical industries in Great Britain.

"The remedy for existing conditions must come from both within and without. The companies interested, the public authorities and the public at large must each contribute to the solution of the problem. None of them can or will be wholly effective without the others. Human nature is such that it can not be trusted to regenerate itself, public clamor is frequently ineffective, while enactments of the legislature can not accomplish all that is desired.

"In the first place, the companies engaged in furnishing public services must, in their own interests, strive more and more to give good service at fair rates. While they can not all avail themselves of the advantages of the legal so-called sliding scales, they can hope for the best results only along the line of the theory of the sliding scale. In my judgment, the time has gone by, if it ever was, when extortionate rates and wretched service will promote the interests of the corporations. He who serves the public best serves his company best. Patience and a spirit of conciliation, and a real desire to increase facilities and reduce charges as rapidly as consistent with such management, will ultimately bring their rewards in the form of increased earnings and larger dividends. And when the public, in any given community, comes to see that, notwithstanding the mouthings of the demagogue and the agitator, it is being fairly treated by the corporations, its objections to large and increasing returns upon invested capital will gradually disappear.

"Next: the abuses of great wealth and corporate privileges to which I have alluded must cease, or at least be greatly mitigated. Self-interest must realize the futility of a continuance of the abuses involved in gross over-capitalization, poor service, high-prices, discrimination among consumers and above all the attempt to control the law-making power for purely selfish ends.

"Third: Public sentiment must be cultivated. The one great need in the economic world, is popular education along sound economic lines. Let us no longer leave the exploitations of vital economic principles to the visionary or the doctrinaire, on the

one hand, or to the irresponsible politician or selfish agitator, on the other. A real campaign of education is what is needed, a broad, comprehensive, intelligent, persistent, aggressive and well-directed campaign, which shall leave nothing in reason undone to spread sound economic doctrines. So far as self-interests enter into it, let it be an enlightened self-interest, having in mind the rights of all; let it be devoted to the fundamental proposition that all members of the community are bound together in such intimacy of relation that no member can ruthlessly injure another without ultimately feeling the recoil upon himself. 'Live and let live,' should be the motto."

ADMINISTRATIVE PROVISIONS — MANAGEMENT OF WATER, GAS, ELECTRIC LIGHT AND SIMILAR MUNICIPAL ENTERPRISES[1]

No department of municipal administration has given rise to more criticism and dissatisfaction, both in this country and in England, than that which has to do with the management of those commercial or income-producing enterprises which in their earlier stages quite generally, and at all times quite commonly, are operated by private corporations, but which on the other hand are very frequently taken over and administered upon public account.

The motives for public ownership are various. Sometimes, as in the case of turnpikes and ferries, private operation becomes unremunerative or unprogressive, and the property is acquired by the public with full knowledge that it must be operated at a loss, or thrown open to general use without charge. Sometimes, as generally in the case of markets and water supply, the object is partly to bring about a reduction of cost to the consumer, and partly to secure improvements and public benefits which are too costly to be attractive to private capital. In other cases, as commonly when private gas or electric works have been acquired by the public authorities, the sole purpose appears to be to make money for the city, or to

[1] From article in "Municipal Charters," by Nathan Matthews, LL.D., lecturer on municipal government in Harvard University. p. 82-6. Copyright, 1914, by Harvard University Press. Reprinted by permission.

save it for the consumer, through the increased profits which municipal operation is expected to realize. Often a mixture of these motives exists, and others not mentioned may be present. Street railways, the telephone system, subways, printing plants, and other forms of business or productive enterprise have also not infrequently been taken over, or first established, under municipal ownership or management.

So far as results go, the public benefits expected have, particularly in the case of turnpikes, markets and water works, generally been realized in the form of better service; but the financial expectations, especially with respect to gas, electric light and street railway enterprises, have not been fulfilled, and in cases too numerous to mention the works have, under municipal control, been scandalously mismanaged. The frauds, corruption, and excessive waste and debt incident to the misuse of the public funds in connection with these quasi-commercial undertakings have led to many municipal investigations and to much corrective legislation; but it cannot be said that municipal works of this character are at the present time in this country (or, in fact, anywhere else) on the whole managed in a sound, economical or wholesome manner. The opportunities for personal or political dishonesty are great, and the temptation to operate the works not from revenue but by taxation, or worse yet by borrowed money, and to conceal the fact by misleading accounts and reports, has proved almost irresistible. There are probably not more than two or three municipal gas or electric light plants in the country which would not be shown, upon a proper analysis of their financial management, to be operated at a loss, or by means of loans increasing faster than the value of the works. The case of the commonest and most justifiable field for municipal management, the installation and operation of a public water supply, does not stand much better; for while the physical product is generally superior to that which could be expected from private management, the cost, both for operation and capital outlay, is usually far greater than necessary; many of the financial methods resorted to are utterly inconsistent with sound administration; and the true cost, as well as the way in which the money for extensions is really obtained, is generally concealed by deceptive bookkeeping. Ultimately, of course, the rates must be far higher, or

the contributions from taxes much more, than would have been necessary under conservative and honest management.

This state of affairs is well known to everyone who has had occasion to inspect the plant, investigate the service, consider the cost, or overhaul the accounts of municipal water, gas, electric light and similar enterprises; but to most persons a thorough-going reform has seemed to be a very difficult accomplishment. The general taxpayers are busy about other things; the rate-payers as a class are personally interested, or think they are, in obtaining low rates at the expense of the tax levy or the debt; and the professional politicians find their greatest opportunities in the mismanagement of municipal enterprises of this sort. The state authorities are reluctant to interfere in a matter which appears to concern the local finances only, and remedial legislation on the subject has generally proved inadequate. And, lastly, the subject is so easily obscured by false methods of accounting as to postpone the realization of the evil until it is almost beyond remedy. The final result is sometimes an ignominious surrender of the work to some private corporation; but more frequently a gradual and indefinite expansion of the city debt with little or nothing to show for it.

Some progress has, however, been made in recent years in the direction of a more or less effective state control over the acquisition and management of municipal works of the character here under consideration, and conspicuous instances of good management upon public account and with popular approval are not wanting.

In the opinion of the writer the reform of these functions of municipal management is, in the present state of public opinion, a much easier result to bring about—at least so far as future operation is concerned—than are some of the equally necessary reforms in the general administration of the city affairs; and it is more likely to last because the amounts spent for construction by the department having charge of the city's water, gas, or similar property, are relatively large, and the economies and other benefits which will follow a rigid compliance with sound financial methods will be conspicuous and easily appreciated.

In the first place it is not difficult to devise methods which will enable the taxpayers to prevent absolutely the borrowing

of money to cover a deficit in operating expenses or to make good the depreciation of the works. These are two of the worst results of municipal management as commonly practiced; and they can be avoided without impairing the power of the city government for the time being to contribute as much as it pleases toward the support of the works from the revenues and taxes of the year. The prohibition of loans for current expenses, the setting aside of sufficient sums to pay the outstanding sinking fund loans as they mature, the issue of all future loans in serial form, and the fixing of relatively short maximum terms of maturity, these and the other provisions of article VII, if applied to the business enterprises of the city, will effectually put a stop to the extravagant use of the borrowing power which has in so many cases run these enterprises into hopeless debt; and the provisions of the charter make it possible for any ten taxpayers to enforce these rules by appeal to the courts.

Another frequent result of municipal mismanagement, the gradual depreciation in efficiency of the plant due to inadequate contributions from revenue, can be avoided by providing that a fixed minimum sum, approximately equal to the annual depreciation, shall each year be set aside from the revenues of the works, or from taxes, and put into a fund to be used for extensions and improvements; and by providing that the rates charged shall be high enough to cover, with the appropriations if any from taxes, the entire annual expense for operation, interest, debt payments and depreciation. A compliance with these provisions can be secured by taxpayers' petitions to the courts, or preferably and more quickly, through the machinery of the state board which has jurisdiction over the rates charged by private companies.

Economy and honesty in the actual work, particularly in the more important, because more costly, work which is in the nature of construction, will be secured, or at least greatly aided, through the provisions of article VI respecting the mode of appointing the managers of the works, and the provisions of article VIII respecting the letting and execution of municipal contracts.

Finally, as there is no excuse for the deceptive methods of bookkeeping which are responsible for a large part of the waste and debt incident to municipal ownership, there ought

to be no effective opposition to laws which shall force municipal corporations engaged in commercial enterprises to keep proper books and to render correct annual accounts, so that both the city officials and the voters may be able to ascertain at any time, and at the end of the year to see at a glance, just what use has been made of the loans issued for the works, and just what is the amount of the true annual loss which must be made good from taxes.

MUNICIPAL OWNERSHIP[1]

The problem on which the American people are thinking more or less clearly and definitely is this: Where is the line to be drawn between those industries which the municipality should control and those which should be left to individual ownership and administration? Without attempting to answer that question, we here suggest three principles by which the thinker may be guided in seeking a sane and rational conclusion:

I. We are not to go back. Industries which are now controlled with fair measure of success by the municipality ought not to be abandoned by the municipality and turned over to public service corporations. The city of New York has built and owns a water system, and has carried it on for years with fairly satisfactory results. No consideration should induce it to consider the proposition to turn over the control of its water supply to private owners. This proposition, made on behalf of the notorious Ramapo Water Company, was successfully resisted, but not without a battle. New York for years owned and controlled its streets. In order to secure greater convenience of transportation, a few years ago it allowed a private corporation to build a second-story street and own and control it. It allowed another corporation to acquire a *quasi* ownership and a practical control of the center of its great avenues. It never ought to have done this. It has not allowed a private corporation to own its great subway, and no impatience for immediate convenience should tempt it to allow its future subways to become private property. It should own and control its highways, whether under the ground, on the ground, or above the ground; and if it allows the system of transportation on these streets to be admin-

[1] Outlook. 80: 266-8. June 3, 1905.

istered by private corporations, it should keep that administration subject to governmental supervision and control.

II. There is a very simple and a very clear distinction between those industries which are carried on by individuals for individuals, and in which, therefore, competition will probably be maintained, and those industries which are of necessity carried on by one great organization for the community as a whole, and in which therefore, competition cannot be maintained. The bakers and butchers and tailors and shoemakers belong in the first category; the water supply, lighting, and transportation belong in the second. If the baker furnishes me poor bread, I can go to another baker; but if the gas company furnishes me poor gas, I cannot go to another gas company. If my shoes pinch my feet, I can try another shoemaker; but if the trolley line puts on so few cars that I have to hang on to a strap in my daily trip between my home and my office, I cannot try another trolley line.

Are there, not, the reader may ask, a beef trust, and a sugar trust, and something very like a coal trust? Yes. But municipal ownership furnishes no remedy for these combinations. That must be sought in state or federal legislation. If the city were to take over all the butcher shops, it would still have to buy its meat of the beef trust. Again, the reader may ask: If the gas company charges too much or furnishes inferior gas, can we not charter a competing company? if the trolley line gives poor service, can we not give a franchise to a rival line? The answer is, No! History has demonstrated the truth of the economic aphorism, Where combination is possible, competition is impossible. The gas companies combine under one management, or divide the city into districts, and leave the individual no option but to take gas from his district company. The street has already been given to one trolley line, and cannot be given to another. And if a rival line is built to parallel it, the two soon combine, if not under one management at least in one policy.

Speaking broadly, then, there are in the city certain natural monopolies. Water, lighting, transportation, are illustrations. The city is not called upon to undertake all industries, nor all that are necessary to human well-being. It need not open city bakeries and groceries. But it may well take over the natural monopolies. That is, it may well undertake the experiment of doing for itself those things which are necessary to the welfare of the city as a whole, and in which, therefore, practically all

the citizens have a common interest, and which, in the nature of the case, must be done by one corporation, either private or public.

III. There is also a simple and clear line of distinction between ownership and administration. The city may both own the plant and administer the industry, or it may own the plant and allow private enterprise to administer the industry subject to governmental rules and regulations. If the city administers the industry, it must employ a large number of men and disburse weekly large sums of money; and in the present state of public morals this involves some public peril. The apprehension of this peril constitutes the most common argument against municipal ownership; but it is really only an argument against municipal administration. If the city owns the plant and permits private enterprise to administer the industry, neither such employment nor such disbursement by the city is involved. The city of New York owns the subway, and this ownership enables it to exercise a certain supervision and control over the administration of the subway. But this ownership involves no considerable addition to its pay-roll and gives no considerable increased political control to the party in power. So it may own the gas plant or the telephone plant and lease the right to operate for a term of years. Does the reader satirically remark, "Philadelphia!" We have not forgotten Philadelphia. But the difficulty in that city is not primarily due to the fact that the city has a gas plant to lease; it is primarily due to the fact that Philadelphia has long suffered from an unscrupulous and corrupt political ring on the one hand, and a somewhat self-complacent and very apathetic content among the citizens on the other; until now the city is so bound hand and foot that it is difficult to untie the knots with celerity and perilous to cut them by a revolution.

The question of municipal administration of municipal industries we reserve for future consideration. In our judgment, the political peril involved in such administration is less than the political perils in which we are already involved from having public service corporations which, on the one hand are eager to get special advantages from the Legislature, and, on the other hand, are subjected to blackmail by corrupt legislators. The corruption in our public schools and in our Water and Fire and Street Cleaning Departments does not compare with the corruption traceable to the connection of public service corpora-

tions and municipal governments in our lighting and our trolley systems. But the two questions of municipal ownership and municipal administration are distinct in fact, and should be kept distinct in our thinking.

We submit, then, these three principles to the consideration of any of our readers who are pondering the problem of municipal ownership: 1. Do not permit the city to lose a control which it now possesses. 2. In extending control, extend it over natural monopolies—that is, over those industries which serve the city as a whole and which experience proves must necessarily come under a single control. 3. Keep clearly in mind the distinction between ownership and administration. First let each city secure municipal ownership. Even if it is not ready also to assume municipal administration, it should not grant any long-time lease; for it should not estop itself from considering the question of municipal administration whenever it finds private administration of a public service, for any reason, unsatisfactory.

MUNICIPAL OWNERSHIP INVESTIGATORS[1]

There is little doubt that English experience will be made to support both sides of the argument with equal conclusiveness. . . . One investigator will observe the London County Council's steamboats plying on the Thames, and will say, "What geese Americans are not to insist that their cities own every ferry-boat!" Another will look into the complaints of poor service by the same boats, will scan the balance sheet which shows that they have been run at a great loss, and will say: "Heaven deliver us from such disastrous experiments." So of municipal tramways in Manchester, city electric lighting in Birmingham, government controlled telephones, and so on. Their bad and good points will be vociferously and contradictorily explained to the American people, who will be expected to be made thereby wise unto their political salvation.

We by no means wish to disparage the investigation. The investigators at least will learn something. And if they offer us divided counsels, the inference that the whole matter is complicated with difficulties will not be without its uses. We already have a sort of advance agent of investigation in the

[1] Nation. 92:441-2. May 31, 1906.

person of Everett W. Burdett of Boston, whose paper on "Municipal Ownership in Great Britain" is published in the *Journal of Political Economy* for May.[1] Preliminary extracts from it vexed the righteous souls of the municipal-ownership enthusiasts in Chicago. But they could not suppress Mr. Burdett's article, as they did the famous Dalrymple report; here it stands in its 56 pages of type.

Its most valuable part is the statistical information which Mr. Burdett has amassed. His arguments may be combated and his applications parried, but his facts must be at least chewed and digested. We can all draw inferences—even a horse can, as the farmer said, if he "gets a good hitch." But the facts and figures we are to hitch to must first be provided; and those which Mr. Burdett presents are very much what was needed. Some things they put beyond reasonable dispute. Whatever else may be said of the policy of government ownership of electric lighting, power, and traction, English and Continental experience shows that it has a hampering effect upon the development of the electrical industry, and that the practical extensions in the way of public service are not nearly so great as in this country. Mr. Burdett's summary is: "The United States, with less than double the population of Great Britain, has six times the amount of apparatus installed for furnishing electric light and power, sixteen times as much for electric traction, twenty-three times as many miles of electric railway, twenty-six times as many motor cars, and five and one-half times as much money invested in such enterprises."

Such differences are, of course, to be explained in part by differences in extent of area and in the distribution of population and in national customs, but the salient fact remains well established. Governments, like monopolies, are not enterprising They do not encourage invention because they do not offer the great stimulus of a big money prize to either inventor or promotor. On the other hand, relieved of the pressure of competition, they are not forever turning, as private investors and corporations are, to plans for reducing the cost of production and improving while cheapening the public service. Hence the result which Mr. Burdett's studies set forth so impressively: quite aside from the debate about policy and cost, municipal ownership in Great Britain appears to be demonstrably sluggish

[1] See portions of Mr. Burdett's article given in this handbook.

in taking up with new processes and in venturing upon enlargements of the service looking far into the future. A city-owned trolley-line, for example, would not push out into the thinly-peopled suburbs—such an extension would not immediately pay. But a private corporation could afford to wait for returns; while its directors, by means of real-estate speculation along the suburban lines, would see their way to making a great deal of money. Americans may be bled by corporations, but they at least get the service. Englishmen may or may not have to pay more for their municipally owned utilities—the actual cost is in dispute—but they confessedly suffer from what Mr. Burdett calls "the inertia and lack of business enterprise which are inseparable from municipal ownership."

If the Government is a fool and the corporation a knave, what woods are we to take to. Reform your governments, say some, and make them pure enough and capable enough to undertake municipal operation. Short of that millennium, however, there are those who would be content if our governments could be made pure enough and wise enough to regulate public-utility corporations. That would not at once open heaven to us, but it would make earth a little more comfortable; and it would give the people more for their money, while at the same time stimulating inventive genius and managing talent by giving them more for their brains.

PUBLIC REGULATION OF STREET RAILWAY TRANSPORTATION[1]

In the United States, street railways, with the exception of certain subways, are owned by private companies. In Europe, although the majority of the street railway enterprises are still owned by corporations, the tendency is towards the purchase and operation of the tramways by city governments. The success that has attended municipal ownership and operation has been such as to lead some persons to conclude that all cities, both European and American, might advantageously adopt the policy of municipalization of the street railway service.

[1] By Edmond R. Johnson. Annals of the American Academy. 29:275-91. March, 1907.

In Great Britain the street railway service during the decade following 1890 was generally unsatisfactory. This was in part due to the fact that the Tramways Act of 1870, by which franchises were limited to periods of twenty-one years, foreshadowed a policy of municipalization of the private lines. When the time came for changing from horse to electric traction, the private companies generally neglected the service, with results that are well stated in the following quotation taken from the minutes of the Plymouth, England, Town Council:

> The main objects of the corporation in purchasing the tramways were to get rid of the company management, which had failed to give the public an effective tramway service and which had exhibited so considerable disregard of public inconvenience and remonstrance, and in the second place the direction and control of the policy of the tramway extension in the hands of the council as representing the general body of ratepayers, for the general benefit of the borough, instead of leaving the tramway system to be developed and extended for the purpose of securing profits to shareholders without regard to local necessities.

The main advantages of municipal ownership and operation are:

(1) The possibility of low fares and of adjusting fares with reference to the most advantageous distribution of population.

(2) The ability of the city to regulate the wages and hours of labor of the street railway employees.

(3) To secure to the city the increasing profits resulting from the growth of population and traffic.

Assuming that a municipal government is honest and is able to manage the street railway service efficiently, the advantages of municipalization are manifest. There are, however, certain dangers connected with municipal ownership and operation even under the favorable conditions prevailing in the cities of Western Europe:

1. There is the liability that municipal debt may be greatly increased and that the cities may be so desirous of reducing street railway fares as to neglect to provide for the payment of the railway debt within the proper period.

2. Writers opposed to municipalization claim that the city is more liable than private corporations are to allow the track and equipment to depreciate, and to neglect the construction of new tracks extending the lines into unoccupied suburban regions.

3. It is also claimed that the municipalization of street railways will restrict the construction of interurban electric lines, for the reason that each city will be disposed to confine its lines

to the region within its own limits, and that, having done so, private companies will not find it profitable to construct lines connecting the cities.

European cities have so recently adopted the policy of municipalization of street railways that it is too early to determine what their policy will be as to the payment of the debts incurred in buying out the corporations or in constructing new lines, or what their policy will be regarding the maintenance of their track and equipment, and whether they will extend their systems with adequate rapidity. In general, it may be said that the British and Continental cities have thus far dealt satisfactorily with these questions. Whether municipalization will hinder the construction of interurban lines remains to be seen, but it seems probable that this may prove to be a somewhat important consequence of municipalization.

The success that is attending the purchase and operation of street railways by foreign cities argues but little for such a policy for American cities. The condition of municipal government in the United States is such as to discourage the ownership and operation of street railways by public authorities at the present time. For the United States the policy for some time to come should be one of public regulation rather than one of public ownership and operation.

The adjustment of the relations of the public authority to the street railway transportation service is a problem comprising the regulation of the provisions of the charter and franchise granted to the company, the regulation of the capitalization and financial methods of the corporation performing the service, the public supervision of the service, the control of the fares, and the adoption and enforcement of wise methods of taxation. This is indeed a complicated problem, the solution of which has been as yet but partly accomplished. The regulation of the franchises, services and charges of street railways needs to be more detailed than is required in the case of steam railroads, because the street railway service is more completely monopolistic than is the business of railroad transportation.

That these facts necessitate a detailed regulation of the street railway service is being increasingly recognized in the United States as shown by the general tendencies discernible in the legislation of the states:

1. There is a tendency to limit the period for which the franchises are granted, and to increase the obligations to be met by the companies in order for them to maintain the validity of the franchises they receive from the public. The states are giving the cities power to exact more than they formerly could of the street railway companies, and the cities are showing an increasing disposition to avail themselves of the powers they have received from the states.

2. The state and municipal control over fares is being more frequently exercised. In several states and in numerous cities efforts are being made to establish an effective public regulation of street railway charges. These efforts indicate more clearly than any other movement could the tendency towards a greater exercise of public authority.

3. There is a growing disposition to tax the franchises and earnings of street railway companies as well as their physical property. The fact is coming to be recognized that taxation levied only on the physical property of street railway companies reaches but a small part of the value possessed by the companies, and that an adequate system of taxation necessitates the taxation either of the franchises or of the earnings of the companies. Moreover, the legal limitations ordinarily placed upon property taxation—that all kinds of property shall be taxed equally—presents another reason for adopting some other basis than physical property for the assessment of street railway companies. In some states the value of the street railway franchise is reached for purposes of taxation by treating the franchises as property and thus avoiding the restrictions of the laws regarding taxation of all physical property. The most convenient and, on the whole, the most practicable method of taxing street railway companies is that of requiring them to turn over to the city annually a liberal percentage of their gross receipts. While the gross receipts tax is not theoretically the most ideal one, the objections to it are not important in the case of the street railway business, and its advantages outweigh the theoretical objections.

The present thought regarding the proper solution of the street railway problem in the United States may be approximately summarized as follows:

(1) A five-cent fare, with six tickets for a quarter, and a general system of transfers; (2) that the service shall be performed by chartered companies, but that each company shall pay

to the city a percentage of its gross receipts and be required to pave and sprinkle the parts of the streets occupied by its tracks; (3) that capitalization of the company shall be regulated by public authority and over-capitalization prohibited; (4) that franchises shall be limited to twenty or thirty years, and that the city should retain the right to purchase at the expiration of this period the property of the company at a fair valuation; (5) that a commission or some other public authority shall pass upon the public necessity for a proposed street railway, and regulate the service in the public interest; (6) that the annual reports made to the state and city shall give full information regarding both the service and finances of the company.

The general problem of the public regulation of street railways has been simplified both by the consolidations that have brought the street railway system in each of the most of our large cities under a single control, and by the recognition on the part of the public of the fact that the street railway service is a monopoly and must be regulated as such. The fact that the street railway service is a monopoly not only necessitates public regulation, but makes possible more efficient public control. The truth of this is well illustrated in Boston, where all the lines, elevated, surface and subway, are operated by a single company. Over-capitalization has been prevented, the fares are being regulated, and different parts of the street railway systems are coordinated so as to secure a good service in a city where the difficulties of providing street railway transportation were exceptional. What Massachusetts and Boston have done other states and cities can, and doubtless will do. Indeed, hopeful progress is being made in several states, and the successful solution of the "street railway problem" in the United States by public regulation rather than by municipalization seems more than probable.

PROBLEM OF MUNICIPAL OWNERSHIP[1]

We may accompany this with another general principle. The people, through their government, whether national, state, or municipal, have a right to embark in any business public in its nature and on which the common welfare of the community is

[1] Outlook. 86:49-51. May 11, 1907.

depending, provided that they can do it better and cheaper for themselves than they can hire a private corporation to do it.

On the other hand, we think it is equally evident from a wide experience that the water-works of a city should never be left in private hands even for temporary operation. The sanitary conditions of the city are too dependent upon pure water and the peril from false economies is too great. In water supply, economies are dangerous and extravagance is safe. The city, therefore, can better afford to pay for a water supply extravagantly administered by the municipality than for a water supply economically administered by private enterprise. In fact, experience shows that whatever economies private enterprise effects rarely diminish the expenditures of the citizens; they swell the profits of the corporation. What is true of the water supply is true of the school system. No one would propose that the public school buildings should be owned or the public schools operated by private enterprise; no one would propose to farm the children out to the lowest bidder; for in public education as in public water supply the perils of extravagance are immeasurably less than the perils from excessive economy.

The practical question respecting municipal ownership relates to public utilities which have generally been carried on in the past by private enterprises and are now being experimentally attempted in municipalities, both at home and abroad, by the government. These are chiefly the utilities of light and transportation. Should the government own and operate the lighting plants and the street railways? or should it own them and lease them to private corporations for operation? or should it own them and grant a permanent franchise or lease, subject to periodical revision of the rent or franchise tax, and exercise over them government supervision and control? or, finally, should it leave them wholly in private hands and subject to private control, and trust to competition for securing efficient service and reasonable rates? In our judgment, no economic thinkers, except a few paid advocates of private enterprises, any longer hold the last of these views. The third of these views is held only as a compromise, because permanent franchises have been granted in the past, and it is not clear how the city can recover the possession of the franchises which it has given away. Except for complications growing out of past legislation, the only practical issue respecting municipal lighting plants and municipal railways is this: Shall

they be owned and operated by the city, or owned by the city and leased to private enterprises on measurably short leases for operation?

We here simply endeavor to state with clearness the issue, without debating it; but our general judgment, considering the political and industrial conditions in this country, is in favor of municipal ownership with private operation on short leases.

MUNICIPAL REGULATION OF PUBLIC UTILITIES[1]

Those who are more or less familiar with the internal workings of the Chicago utilities and know anything at all of their practice, procedure, rules or regulations that govern them in dealing with the public or their consumers, know only too well the necessity and wisdom of dealing with these people directly across the counter, so to speak. Practically all of the utilities now operating and supplying service to the people within the limits of the City of Chicago acquired the rights for their corporate existence through special acts of the Legislature. Practically all of them have by questionable methods and through questionable routes reached the monopolistic stage. By reference to compiled tables of statistics it will be seen that nearly half of the state population, and in consequence the business of the utilities, falls within the corporate limits of the City of Chicago.

The City of Chicago through its Mayor, City Council and executive departments has been able effectively and efficiently to deal with these monopolistic corporations. In this respect it has surpassed any city of its size in the country. Our shortcomings and failure to bring about a more satisfactory condition of affairs is due largely to arbitrary judicial decisions and the political influences at work in Springfield. The trite argument that the city is not in a position to appoint or engage as capable and impartial experts as members of a utility commission, does not hold water. Legislating and enacting laws by a body of men totally removed from the environs where such laws purport to apply does not induce confidence in the

[1] From article by Montague Ferry. Illinois Municipal League. Proceedings. p. 50-62. October, 1915.

people who pay the bills. Chicago is a progressive city and has countless number of times demonstrated the fitness of its motto—"I will." If the State Legislature will only grant us the proper power to deal with our own local affairs and utilities, you can rest assured that the executive department charged with the responsibility of dealing with the utilities will be composed of the most impartial and the best expert talent available.

Many problems and questions in dispute arise as between the seller and consumer. The price to be charged for a commodity, the quality and character of the service supplied, the rights of utility and consumer respectively to sell and buy such service and the rules and regulations governing the conditions under which this service is sold are or should all be fixed by properly flexible ordinances or laws. These laws are more or less complex and it is necessary that they should be amended from time to time so that the rights of the people, the city, and the utility company, shall always be conserved. To do this work efficiently, it is necessary that the department have in its possession all the available data and information relative to the rules and regulations governing the business of the utilities over which it has jurisdiction. Who or what body of qualified experts, may I ask, is in a better position to recommend ordinances relating to rates or service standards, to adjust innumerable complaints, or to carry on the work as set forth above, than the men who come in direct contact with all phases of the work, day in and day out?

In order to maintain a healthy state of affairs and to insure that the most harmonious relations exist between the utility and the people, it is absolutely necessary that complaints and grievances be promptly adjusted. Appeals to State Commissioners for relief, as a rule, involve extended delay and in many cases the result does not justify the time and energy expended in bringing the case before the Commission. State Commissions and rules are formulated in such a manner as to discourage and make it difficult for consumers or users of service to appeal to the Commission for relief.

The executive departments of the city are co-operative and interrelated. People are naturally accustomed to calling by 'phone or visiting the City Hall, in quest of information or relief in matters municipal or with complaints against the gas, electric, telephone or traction utilities. The Department of

Public Service of the City of Chicago makes this procedure very simple and informal. Wherever relief is possible under an existing ordinance action is taken immediately. The majority of such matters are purely municipal and people would with difficulty become accustomed to refer them to a foreign body for solution.

Traffic congestion within the loop interferes with surface car and elevated transportation. It may become necessary to have more and better traffic regulations and perhaps a re-routing of certain car lines. The electric company arbitrarily refuses to extend its lines and poles so that hundreds of applicants might enjoy this service, because a large share of the capital controlling this corporation is being used to finance the European war. The telephone company persists in supplying poor service at extortionate rates. The gas company for reasons best known to itself continues to use the expensive and old fashioned process of water gas manufacture, necessitating the use of enormous quantities of gas oil, when other progressive cities are enjoying the benefits of the modern coke oven gas process. These and many other problems are immediately before us; and it is our hope that the members of the next Legislature convening in Springfield will see to it that the proper action is taken to grant Chicago and other municipalities power sufficient in extent and scope to enable us to prosecute our work in a manner that will result in great and lasting benefit to the people.

EFFECTS OF STATE REGULATION UPON THE MUNICIPAL OWNERSHIP MOVEMENT[1]

The policy of regulating public utilities by state commission may be said to have been inaugurated by Governor Hughes of New York and Senator La Follette of Wisconsin in 1907. Prior to that time there had been a good deal of agitation in the United States for municipal ownership and operation of street railways and other local utilities. The reports of successful municipal operation in Great Britain and Germany, coupled with intense dissatisfaction in many American cities

[1] By Delos F. Wilcox, Ph.D., Consulting Franchise and Public Utility Expert, New York City. Annals of the American Academy. 53: 71-84. May, 1914.

with the results of private operation here, had made municipal ownership a nation-wide local issue. Mr. Hearst had come within a very few votes of being elected mayor of New York City on this issue, and Mr. Dunne had been elected mayor of Chicago on the definite platform of immediate municipal ownership and operation of street railways. The policy of regulation by state commissions injected into American politics by the political prestige and constructive genius of Hughes and La Follette, and subsequently strengthened by the support of such strong progressive state executives as Woodrow Wilson in New Jersey and Hiram Johnson in California, has displayed more aggressive vitality than almost any other constructive political idea ever launched in state politics. In seven years' time this policy has swept across the country until now two-thirds of the states having large cities within their borders have established strong state commissions with regulatory powers.

The public control of public utilities is a problem of far-reaching and rapidly increasing importance, and that it will continue to be such a problem for an indefinite period in the future, cannot be questioned. The social, civic and political importance of the issue can hardly be over-estimated. Rapidly as cities are growing, and rapidly as their debts and expenditures are increasing, the activities and the investments of public utilities are increasing even more rapidly. Indeed, public utilities are coming to be what might be called the artificial natural environment of urban communities. They are, so to speak, the second nature of cities. They supplement the sunshine and the air.

When the policy of state regulation was launched seven years ago, it received the cordial support of three classes of citizens: (1) those who were utterly opposed to municipal ownership, but who recognized either the necessity or the inevitableness of stringent public control; (2) those who were uncertain about municipal ownership and deemed it desirable to try the experiment of regulation, with the hope that it might succeed and thus make public ownership unnecessary; and (3) those who were definitely convinced that municipal ownership was desirable or necessary as an ultimate policy, but believed that regulation would be a good thing as a stop-gap while public opinion and public administration were getting ready for

the inevitable. Influenced by these various hopes and expectations, the supporters of the new policy formed a somewhat motley political group. They included not all, but the major portion of, the progressive citizens of the country who desired to redeem the state and local governments from the domination of public service corporations.

At first the opposition to state regulation was made up primarily of three elements, viz., (1) the public service corporations, which were naturally hostile to a movement promising more minute and more rigid public control of their activities, and which, much as they disliked the interference of local governments and state legislatures, had by long practice learned how to meet these interferences and, therefore, preferred to keep on fighting in the old way rather than to face a new enemy and have to learn new tactics; (2) the corrupt and semi-corrupt political leaders and organizations which had acquired and maintained their power largely through their alliances with public service corporations under the old system of "give and take"; and (3) a comparatively small number of uncompromising municipal ownership men and municipal home rule advocates, together with a number of city politicians who had made political capital out of local feuds with the public service corporations. This third element of opposition manifested itself in spots where, through long local agitation, cities thought they were getting near the municipal ownership goal, or at least were getting into a position where they could, through franchise contracts and local regulation, secure better conditions as to rates and service, and where they feared that the sudden transfer of all powers of control to a state commission, subject to the domination of state politics, would constitute a serious set-back locally.

The sentiment of those who were definitely opposed to municipal ownership, and who welcomed regulation as a permanent solution of the problem of the control of public utilities, found remarkable expression only two years ago in the majority opinion of the supreme court of the state of Washington in the celebrated Seattle telephone case. In this case the Washington court upheld an order of the state public service commission raising the rates of the independent telephone company in Seattle above the schedule fixed in the local franchise which had been granted by the city a few years before on the com-

pany's application and which had been subsequently accepted and used. In its enthusiasm for state commission regulation, the court said:

> In its search for remedies and while seriously considering municipal, state or government ownership, the public, by reference to the police power of the state, has almost unwittingly—unwittingly in the sense that it is not generally appreciated—solved the problem, and has, by the application of fundamental as well as established relative propositions of law, gained every advantage of ownership without assuming its burdens. . . . The benefit of ownership is enjoyed, while its dangers—not the least of which are the political activities of great armies of public employes—are no longer a menace to those who, to avoid the hazards of public ownership, have unwillingly subscribed to the conditions prevailing before this and other states entered upon the policy of public control.

While the Washington commission and the Washington courts have gone further than most other commissions and courts in undermining the power of cities to control local utilities either by franchise contract or by ordinance, the aggressive sentiments just quoted give articulate expression to the general trend of commission and court opinion.

In the same case the Washington court forcibly defended the increase in the Seattle telephone rates, even though it involved the abrogation of the contract between the city and the company. "If we assume the right to lower rates to make the return conform to a fair interest rate upon a fair valuation," said the court,

> it follows that we must, in conscience, yield the right to those affected to petition for a rate, though it be higher than a present one, that will accomplish the purpose of the law. These principles have their foundations laid deep in the doctrine of common honesty between man and man, between the public and its servants. They are sustained upon the theory that the public is willing to pay a full return and no more, a fair return and no less, to those who have lent their capital for its benefit. . . . . To hold that the public service commission is without jurisdiction to raise rates to the point of fairness, as it finds that point to be, would deprive the commission of the right to lower rates. To dissent from these views would be to hold that the state could not relieve the people of a municipality of an improvident contract, or one entered into in defiance of the will of the people, instances of which might be easily multiplied were we called upon to do so.

Largely as a result of the attitude assumed by the regulating authorities as set forth in the quotations just given, the line-up of forces on the political issue involved in state regulation of public utilities has considerably changed from what it was seven years ago. The public service corporations themselves, instead of being unanimously hostile to state regulation, as they were in 1907, have veered about until they appear to furnish the chief motive power behind the movement in those communities where state regulation has not yet been fully estab-

lished. Doubtless the corporations have been and still are greatly annoyed by some of the positive or negative requirements of state commissions, and doubtless some corporations would gladly go back to the old system of haphazard regulation rather than submit to the systematic regulatory procedure now in vogue. Nevertheless, most corporations have come to see advantages in regulation itself and very great advantages in state as opposed to local regulation. By means of state regulation, they escape from the annoyance of local nagging and the immediate political pressure for lower rates, and appear to feel that they are stealing a march on the municipal ownership forces by a short cut across country. They expect to get so far out of sight of the municipal ownership movement that they hope never to see it again, or be seen by it.

On the other hand, it is fairly certain that the general public has been as unhappily disappointed in the general results of state regulation as the companies themselves have been happily disappointed. As in the case of the corporations, the extent and nature of this disappointment are not uniform either in time or place. Some commissions, as notably the Railroad Commission of California (which, however, does not have uniform jurisdiction over strictly local utilities), have borne down upon the corporations with a pretty firm hand, and have thereby maintained their prestige with the people, while at the same time they have disarmed the opposition of the companies by the fairness of their severity. Generally speaking, however, the popular prestige of public service commissions is waning. The people are disappointed in the results obtained for the money spent, and a great many are coming to fear that the commissions as organs of government are primarily organs of the public utility interests to protect themselves from the mosquito-bites of rampant democracy. At the same time, there is a noticeable revival in the movement for municipal ownership and a strengthening of local resistance to the practical abrogation of municipal home rule as it relates to public utilities.

In order fairly to determine the underlying basis of fact or fancy for these changes in public sentiment and these shifting political alliances, we need to examine somewhat analytically the direct and indirect effects of state regulation upon municipal ownership as a business proposition.

Let us first consider the direct changes in the powers of cities to undertake municipal ownership, resulting from the enactment of public utility laws.

The Wisconsin law and the Wisconsin commission probably typify the state regulation movement as it exists in practice better than those of any other state. In certain respects, the Wisconsin law is still in advance of most of the other commission laws. This is particularly true with reference to the indeterminate franchise, which has been made to apply by legislative mandate to all of the public utilities operating in Wisconsin. This law, while not depriving the municipalities of the right to withhold their consent to the operation of public utilities in their midst, makes every franchise heretofore or hereafter granted a perpetual franchise subject to termination on one condition only, viz., that the municipality shall purchase the plant of the utility at a valuation to be fixed by the state commission. Under this law, the legal right of the municipalities to embark upon the policy of municipal ownership of local public utilities has been made universal, but the cities have been deprived of any right to build competing public utilities without the consent of the state commission or to acquire existing utilities by negotiations or under the terms of franchise contracts. For example, it would appear that no city in Wisconsin now has the authority to grant a franchise under which the utility would be required to withdraw its capital out of earnings and transfer its property to the city at some future time without payment. No method of bringing about municipal ownership is contemplated except the single method of paying for the property a sum equal to its value as fixed at the time of its transfer by the state commission.

Under these conditions about a dozen public utilities have been acquired by municipalities in Wisconsin during the past seven years, but for the most part, these utilities are in small towns and represent a comparatively small investment. No street railways have as yet been taken over in Wisconsin under this law. It is too early to predict with certainty just what practical effect the Wisconsin indeterminate franchise plan will have upon the municipal ownership movement, but it is clear that it provides an inflexible procedure with no opportunity for adjustment to the varying conditions of different localities, and that a city cannot proceed to municipal ownership without

submitting to the judgment of the state commission in fixing the price to be paid for the property, and the terms and conditions of the purchase, subject to appeal by either party to the courts. Moreover, without the consent of the state commission no city can build a plant of its own in competition with an existing private plant.

In California, where the right of municipal ownership and operation has been established by constitutional provision and where the control of local utilities remains for the most part in the hands of the local authorities, the state commission, nevertheless, has it within its power to hinder and possibly prevent municipal ownership in particular cases by refusing its consent to the sale of a public utility to a city on the terms agreed upon between the parties.

In New York and New Jersey franchises granted by local authorities require the approval of the state commissions, and in New Jersey, when such franchises are approved, the state commission may impose its own conditions as to construction, equipment, maintenance or operation.

These illustrations show the tendency of the more radical state commission laws to check the freedom of the municipalities to advance toward municipal ownership in their own way. Some of the commission laws bring municipal undertakings under the control of the state commission practically to the same extent as private undertakings, and while such regulation is not necessarily inimical to municipal ownership, it may, in some instances, make cities feel uncomfortably dependent upon the will of a state commission, which may be hostile politically or otherwise to the cities' aims.

This restriction and definition of the methods by which municipal ownership may be attained, and even the supervision of municipal undertakings by the state commissions, may in practice help rather than hinder the municipal ownership movement. But whether they help or hinder, it certainly cannot be claimed that the movement will be unaffected by them.

The indirect effects of state regulation upon the municipal ownership movement are even more numerous and important than the direct effects.

Except in those cases where perpetual franchises have been granted or where franchises have been granted binding the municipality to acquire the property at the expiration of the

grant, public utility investments have not been legally recognized as permanent. The ultimate status of the investments has been more or less uncertain, but the definite limitation of a franchise has itself constituted a warning that the company ought to calculate upon getting its capital back out of earnings during the franchise period. Regulation assumes, however, that the investment is to be permanent, and, therefore, that the franchise-holding corporation has no reason for withdrawing its capital. Regulation assumes continuity and permanency, and is surprised and annoyed when the local authorities do anything to interfere with such continuity and permanency. Regulation does not even permit the companies to invest their earnings in extensions of plant, but practically requires that all such extensions shall be provided for from the proceeds of the sale of additional stocks and bonds. In this way, regulation often encourages the increase of the nominal capitalization of a utility. The general theory of regulation is that the capital investment shall grow with all improvements and extensions, and shall never be diminished except to the extent that property disappears or is withdrawn from use.

This theory is modified in certain cases to meet the actual requirements of local franchise contracts, as for example, in the city of New York, where the limited franchise now granted by the city authorities provides for the reversion of the fixed property located within the street limits to the municipality at the final expiration of the grant. In providing for the capitalization of the corporations constructing plants under such franchises, the state commission requires that provision shall be made for the amortization of that portion of the investment which, at the expiration of the franchise, will be transferred to municipal ownership without payment, but no provision is made for the amortization of any of the property not fixed within the streets, whether or not its value is dependent upon its continued use in connection with a franchise. If, for example, a street railway is laid out so that a portion of its route lies on a private right of way, even though this private right of way may already have been placed on the city map as a future public street, the cost of the track laid on the private right of way is excluded from the amortization requirements. Moreover, if the franchise runs for a period of twenty-five years with an option for a renewal for a like period

on a readjustment of the compensation paid for it, the commission bases its amortization requirements on the assumption that the franchise will be held for fifty years. Indeed, if the commission permitted the company to amortize its investment except to the extent that such investment represents property which will definitely pass out of the company's ownership and control at a fixed time, it would be permitting the company to pay for its property out of earnings derived from the public and still retain the property itself. It is for this reason that, in the absence of a definite, conclusive contract providing for the transfer of property to city ownership, regulating commissions will not look with favor upon the amortization of capital, unless they abandon the public point of view in an effort to "help out" the corporations.

The only contrary instance that has come to my attention is in the case of Fuhrmann *vs.* Cataract Power and Conduit Company, decided by the Public Service Commission for the second district of New York, April 2, 1913. This was a rate case. The company had been handling its amortization upon the theory that the life of its property would be equal to the term of its franchise, which would expire in 1932. The commission approved this general policy and authorized the company to withdraw from earnings from time to time an amount sufficient to complete the amortization of its depreciable property within the franchise period. The commission then called attention to the fact that at the expiration of the franchise the company would be the owner of a well-equipped plant in excellent operating condition which would have been fully paid for by the public. The commission warned the city of Buffalo, as a franchise-granting authority, to jot this fact down in its notebook for reference in 1932, with the suggestion that, should the franchise be renewed, the company would not be entitled to a return which would enable it to amortize this property all over again. By a curious piece of reasoning, however, the commission intimated that, although the property would have been paid for by the public, the company, under a renewal of its franchise, would still be entitled to the regular fair return for the use of the property. This exceptional instance shows that, where regulation departs from the general theory above set forth, the result is still advantageous to the company and disadvantageous to the public.

One of the ways in which state regulation indirectly affects the municipal ownership movement is by the control over public utility construction accounts and capitalization exercised by state commissions. It is not easy to predict either the nature or the extent of this effect. So far a state regulation of stock and bond issues results in the actual squeezing out of water from the existing capitalization of a company or in keeping water out of future capitalization, it would appear that regulation must tend to make municipalization easier rather than more difficult. On the other hand, the extent to which the sanction of the state commission has the effect of bolstering up existing over-capitalization or of putting the state's guaranty upon new capitalization which in the course of time may come to be out of proportion to the real value of the depreciated plant, just so far will regulation tend to make the purchase of public utilities by cities difficult and burdensome. The ruling of the United States supreme court in the Consolidated Gas case to the effect that franchise values, once capitalized with the consent of the public authorities of a state, become an inviolable portion of the capital investment of a company, upon which it is entitled to earn a fair return the same as on its tangible assets, makes it extremely important that public regulating bodies should exercise the utmost care in approving capitalization, lest it be found that such approval, though improvidently given, be interpreted by the courts as a final guaranty both for future rate and service regulation and for purchase.

The right of the state commission to fix the value of a public utility property for the purpose of municipal purchase, whether directly as under the Wisconsin law or indirectly through the prior approval of stock and bond issues, goes to the very core of the municipal ownership problem. Only a few years ago, constitutional and statutory restrictions, or the mere absence of delegated power, constituted a serious legal obstacle to the general acquisition of public utilities in most states and cities. This legal obstacle is gradually being removed, and we may confidently expect that in the near future the abstract right of cities to own and operate public utilities will be all but universally recognized in the United States. The next important obstacle in the way of the actual realization of the municipal ownership policy is the contractual relations existing between the cities and private corporations

under franchises already granted. So far as the indeterminate franchise principle is applied, this obstacle will be wholly removed, and wherever the limited term franchise applies, it will be removed as the franchises expire. Even where unlimited or perpetual franchises have been granted, this obstacle is being overcome in some cases, and may be overcome in all, by the enactment of laws conferring upon the cities the right to take over public utilities by condemnation proceedings. The third great obstacle, which is of much more permanent practical importance than the other two, is the financial difficulty of paying for the property either out of taxes or out of earnings, with the temporary assistance of municipal credit. The purchase price of the utility is bound to be the sticking point. If the price can be beaten down low enough, the movement for municipal ownership will thereby receive a great impetus. If, on the other hand, the price can be beaten up high enough, the movement will suffer a corresponding check. Both from the standpoint of the city and from the standpoint of the corporation, the desirability or undesirability of municipalization in any particular case will largely be a matter of the price. The action of the regulating commissions, therefore, in substantially guaranteeing investments and capitalization in advance of the determination of the purchase price is bound to exercise a far-reaching though indirect effect upon the municipal ownership movement.

Valuations have come to be the big thing in the public utility world. Though for the present these valuations are usually made to serve as a basis for rate regulation, it is clear from the attitude of the courts that still higher valuations would be required in many cases as a basis for municipal purchase. In the play for advantages in the regulatory system now being established, the public service corporations have not been slow to see the critical importance of the valuation. Accordingly, all their ingenuity, power and influence, direct and indirect, are being brought to bear upon the problem of discovering new elements of value, and of persuading or coercing the commissions and the courts to recognize them. In this way, the almost inevitable trend of valuations is upward. Commissions, both out of the desire to be fair and even liberal to the companies, and also out of fear that their decisions may be upset by the courts, are continually giving the benefit of the doubt

in valuation cases to the corporations owning the property. It seems reasonably certain, therefore, that, while the most scandalous abuses in capitalization will be corrected by means of regulation, nevertheless the recognized value of the actual property will be gradually swollen until it includes every conceivable element of "overhead charges" so-called, with certain additions thrown in for good measure. This tendency is the more inevitable because the commissions usually make their valuations as a basis for rate fixing, and the rate of return allowed on capital investment is a much simpler element of the problem than the valuation itself. Therefore, it is much easier for public opinion to force the rate of return down, say from 10 per cent to 8 per cent, or from 7 per cent to 6 per cent, than it would be to effect a corresponding reduction in the recognized capital value.

The possible effect of this double tendency upon the municipal ownership movement can be readily seen. Under the theory of the permanency of the investment usually recognized by the state commissions, no provision will be allowed for the amortization or retirement of the capital except such as is included under so-called "general amortization," which is nothing more than provision for the replacement of the property when it is worn out or obsolete. But when the city comes to take over a utility or proposes to enter into a contract by which the utility shall be made to pay for itself pending its transfer to public ownership, it is apparent that the rates, which have been scaled down without any provision for the amortization of the capital, may have to be increased again in order to take care of this new factor. If this should prove to be the case, the movement for municipalization would lose much of its political driving power. There is reason to believe that the average citizen who favors municipal ownership is still moved primarily by the expectation that under it he would secure better service, or lower rates, or both, and if it became clear that in order to make municipal ownership successful, the rates would have to be raised, it is more than likely that the citizen's enthusiasm for the change would cool off rapidly.

Clearly, the effect of any system of regulation upon the movement for municipal ownership must be considered very carefully from the point of view assumed relative to the permanency of the investment, the guaranty of capital value and

the limitation of rates. If public regulation says that the utilities are here to stay and we need never pay for them, and fixes values and rates accordingly, then the municipal ownership movement, when it comes along, will have an additional obstacle to overcome; for all *public* improvements have to be paid for either out of earnings or out of taxes. The danger of making public utility rates so low as to hinder municipalization is not limited to the activities of state commissions, however. The same result may be brought about by local regulation or even by franchise contract. It is quite conceivable, for example, that the Cleveland plan of automatic rate regulation will result in holding street-car fares down to so low a point that it would be entirely impossible for the city to maintain the same fares under municipal ownership while retiring the capital out of earnings.

One of the most effective arguments in favor of state regulation of public utilities is the fact that, under modern conditions, comparatively few utilities are confined within the physical limits of a single municipality, while many utilities have spread themselves over numerous municipalities, and some have become state-wide or even interstate in their ramifications. It is said that every utility should be operated as a unit and that the attempt to regulate it in geographical sub-divisions by several independent local authorities is illogical and impossible. Obviously, this argument has even greater weight against municipal ownership and operation than it has against local regulation. In so far, therefore, as state regulation represents a triumph of the unified operation idea as opposed to the geographical sub-division idea, it makes municipalization logically and practically more difficult. While various municipalities are actively engaged in regulating the operations of a utility within their respective limits, it is not hard to see how they could severally take over the utility, making such mutual agreements and concessions as might be necessary to enable them to operate it. But when the very idea of local control has been abandoned in favor of unified state control, the difficulty that would be encountered in reviving the belief in the possibility of independent municipal operation is sufficiently obvious.

As a further incidental result of the transfer of regulatory powers from the local authorities to state commissions, there comes an atrophy of the municipal organs previously engaged

in regulatory efforts, which are naturally the very organs to be developed into more active functioning if the utility is to be taken over for municipal operation. In other words, if the regulation of public utilities is taken out of the hands of the cities, the very activities which might gradually prepare the cities for the responsibilities of ownership and operation are prevented, with the result that the city is likely to become less fit as time goes on for the enlargement of its functions. In brief, state regulation is likely to result in a case of arrested development so far as the municipality is concerned.

Another way in which state regulation is likely to have a tendency to check the municipal ownership movement is in the creation of a powerful organ of government, state-wide in its ramifications and interests, which, like all established organs of government, straightway develops a strong instinct of self-preservation and self-perpetuation. To the state commission, a movement for municipal ownership in general or in a particular locality spells an indictment of the commissions's success as a regulating body, and also means the curtailment of its functions and influence in the future. For these reasons, it is clear that, on the whole, the commissions, with all their tremendous power over legislation, politics and finance, will be actively or passively hostile to the municipalization of utilities under their jurisdiction. This hostility may not manifest itself in unimportant cases and may not even be manifested openly in very important cases. But that such hostility should exist and make itself felt in a general way, is, I think, an inevitable result of the constitution of human nature as we know it in American politics.

There are some reasons on the other hand for expecting that state regulation will hasten rather than hinder the municipal ownership movement. In so far as regulation is effective it will result in the training of a large body of technical men to look at public utility problems from the public point of view. This development will make the municipalization of public utilities more practicable and the success of municipal operation more likely. From this point of view, regulation is merely training men for the more direct and far-reaching responsibilities of public ownership and operation. Moreover, in so far as regulation is effective, it will eliminate the speculative element from public utility investments and thereby drive out

of the field a great many gamblers who are seeking to make personal fortunes through the exploitation of public privileges. It is from them that the bitterest and most dogged resistance to municipalization now comes. With the steadying down of the business so that no one can have any hope of receiving more than a just reward for a just service rendered, many of the public utility magnates will get tired of the game, and there may be a great accession to the ranks of the municipal ownership enthusiasts from those of the promoters who would be glad to sell at the best price possible and withdraw to other fields. It is further to be expected that the public knowledge which comes from uniform, accurate and detailed publicity will make municipal ownership more feasible and private ownership less alluring than heretofore.

It is possible that state regulation, through its failures, may result in greatly strengthening the demand for municipal ownership at the same time it puts new obstacles in its way. If this proves to be true, we shall have a repetition of the many lamentable experiences of the past in American cities where it has often been found that the people, though in favor of a particular policy by a great majority, are helpless to put it into effect, with the result that political discontent, cynicism and civic paralysis ensue.

Perhaps one of the most likely effects of state regulation will be to enlarge the ambitions of the state itself and to create a strong movement in favor of state ownership of the inter-municipal utilities such as interurban railways, water power developments and transmission lines. In several respects, a movement for *state* ownership of utilities not strictly local in their character would not be handicapped by the tendencies of state regulation to the same extent that the movement for *municipal* ownership of even strictly local utilities might be so handicapped.

PRINCIPLES OF MUNICIPAL OWNERSHIP[1]

I have now reviewed the attitude which advocates of municipal ownership assume towards the least industrial and commercial of communal undertakings. I will now deal with the more industrial, which raise serious contentions.

What are the principles which should guide municipal action with regard to the larger and more profitable services, including street railways, electricity and gas supplies, telephones, etc?

The operations of these services cannot, on any intelligent principle, be left to free trade. Almost every American city has started by having several street railway corporations, and more than one electric or gas corporation; but the irresistible tendency has been for absorptions and amalgamation to take place until a monopoly has been established—a clear indication that the services come within the domain of natural monopolies. When, however, monopoly is reached through the stress of competition and the operations of graft, the undertakings are greatly overweighted with capital and burdened and drained by vested interests, progress is retarded, and cheap rates made impossible. The obvious conclusion is that public lighting services which are monopolistic in character should be kept in control by the municipality. It should not allow privileges which the community creates to pass beyond its power.

There is little difference between the principles involved, whether the public service franchise is for gas, elctricity, or street railways. Compensation can be granted to the city for gas supplies on two systems: a tax per cubic meter of gas sold, as in Paris and German cities, in which case the money goes to the municipal exchequer and insures the city getting a share in the profits; or the enforcement of a sliding scale, the operation of which enables the corporation to increase its dividend as it lowers its price—a system which enables the consumer to benefit.

The same systems could be applied to electricity supply. Street railway corporations operating under franchise can be made to pay fees either through a percentage of gross receipts or in some other way.

It is quite feasible and practical for a city in various ways to grant public service franchises, but the system has drawbacks.

[1] By Robert Donald. Outlook. 82:504-11. March 3, 1906.

Social interests enter very largely into the operation of all city services. It is in the interest of the community that light should be as cheap as possible to the poor, and it helps the police to have the streets well lighted. Efficient and cheap transportation has an important influence on health, and promotes well-being. Corporations which exist solely for making profits will not, as a rule, risk a fall in their dividends in order to cheapen a commodity or popularize a service. The corporations have always an eye on the end of the franchise period. They regulate their operations accordingly. They cease to introduce new methods, they neglect adequate maintenance, they allow their plant to become dilapidated; and naturally so, as the future is uncertain, and they want recoupment and profit.

From a theoretical point of view—assuming for the moment that there are no administrative difficulties—let us see how complete municipal ownership and operation would work. Take street railways. The City Council owns the railroad laid down in its own streets. It can regulate the time of construction so as to be least inconvenient to the people. The routes would be planned also in conjunction with street improvements, clearing of slums, and rehousing the poor. A corporation holding a limited franchise has no interest in the permanent development of a suburb.

The City Council would always adopt the best systems of transportation, as it will live to reap the benefit. It would have some regard to the appearance of its cars. It would be a model employer. Fair wages would be given and reasonable hours observed. Its car conductors would be provided with neat uniforms. They would be smart and civil. The municipality would study the needs of special classes. For instance, there would be cheap cars for workmen, morning and evening. There would be special services to artisan colonies in the suburbs, to parks and pleasure grounds. The citizens would be made to feel in every way that the cars were their cars, and that every cent they paid would go towards the improvement and development of their own co-operative property. A municipal car service can be made an excellent means for stimulating civic patriotism.

Then the municipal car system would dovetail into the work of other departments. The cars would be run at night to collect city garbage, market produce, etc., and the day load of electricity required for street railways would be welcomed by the city electricity department.

All these features of a municipal street railway system, which I say are possible, exist in British and Continental cities. But we can imagine a publicly owned street railway service and subways going much further. The system of transportation in a city is an essential element in its life. The better it is, the more it aids business, the more it adds to social amenities.

In some British cities the average fare is a little over one cent. It is only a step further to socialize the street railways as we have socialized the highways, bridges, and ferries (for the use of which in former years tolls were levied), and introduce free transportation—that is, free in the sense that the use of the streets, maintained out of local taxation, is free, and the use of elevators in high buildings (paid for in the rent of the rooms) is free. I only refer to the Utopia of free travel to emphasize the difference between private and municipal operation of street railways. While it is the aim of all cities of which I know to make their municipal railways self-sustaining and profitable, there are cases where a city deliberately incurs a money loss for the sake of a social benefit. Huddersfield, a large manufacturing city in Yorkshire, established tramways because companies refused to do so, and ran them for years at a loss, for the general benefit to the community. The steep gradients and hilly streets which the cars had to climb made horse and steam traction both unprofitable, but the conformation of the site made transportation facilities all the more necessary. Electric traction has now turned the city car system into a profitable undertaking. In Cologne, Düsseldorf, and other cities, street railways are run several miles beyond their borders to municipal forests at such low fares that loss is incurred.

The same principles of social benefit arising from cheapness of service should operate in the case of electricity and gas supplies. Both services under municipal ownership can be managed on parallel lines by different committees. Under the Scottish municipal code, municipalities are precluded from making profit. The surplus is devoted to reducing charges and improving the services. This system is not yet general, as municipalities prefer to manage their undertakings so as to give a commercial instead of or in addition to a social profit. A commercial profit means that the surplus left after meeting all payments for maintenance, depreciation, interest, redemption charges, etc., is handed over to the relief of local taxation—thus benefiting all taxpayers.

When the other system is adopted, the benefit in the form of a cheaper service is confined to consumers. The contrast between the two systems is most striking in the case of street railways in London. In the wealthy and crowded financial center of London and in the rich West End districts tramways are not permitted, yet the rich taxpayers in these areas get a share of relief which comes from the pennies of the poor who use the tramways in other quarters of the metropolis.

Hundreds of municipalities in Great Britain and in Continental Europe own and manage efficiently both gas and electricity undertakings. One necessary condition for cheapness of production is for the municipality to supply all the city, and not merely produce gas or generate electricity for its own requirements. It is economically wasteful, for instance, for the city of Chicago to distribute electricity all over the city only to light the street lamps.

In Continental Europe the franchise system has existed both as regards gas and electricity, although it is now being discontinued. It did not give low charges and did not make for efficiency. The sole object of the concessionary corporation is to reap the richest harvest it can during the period of the franchise, without regard to the future of the undertaking or of the city's needs. In Great Britain the franchise system was adopted for electricity supply. All companies were limited by statute to forty-two years, at the end of which period the municipality takes possession on payment of "the then value" of the plant, without compensation for good will or displacement. This system retarded development so that most of the companies have been bought up long before the franchise expired, receiving sometimes double their capital expenditure. And it has paid the community to give this compensation in order to develop the business and lower the charges.

Municipal ownership in Great Britain has been more enterprising than corporation rule; it has always considered the interests of the whole community, and has invariably meant lower charges for consumers.

The same principles of public utility which apply to street railways, gas or electricity supplies are applicable to telephones and the distribution of hydraulic power, or any other service which is monopolistic in character. Telephones, while managed successfully by municipalities in England, Norway, Sweden, and

Holland, present some difficulties. Localization is not desirable and isolation is impossible. There should be only one telephone system in order to have the best facilities for intercommunication. The telephone service works most smoothly and answers public needs best in European countries where it is a State monopoly under the post-office. With the telegraph system a State monopoly, as is the case throughout Europe, it is an anomaly to have the telephone under separate management.

The general principles of municipal ownership will probably find ready acceptance as theories of civic policy, but what about their practical application? It will be pointed out as an initial material difficulty that street railway systems, gas and electricity supplies, cannot be limited by city boundaries. They should serve many areas governed by different authorities. Provided all these authorities are animated by the same ideas of civic policy, the difficulties disappear; working arrangements mutually beneficial are entered into, or joint services are established, and parochialism gives place to a wider civic patriotism, which recognizes larger communal interests. As a matter of fact, the large cities in England serve their smaller neighbors with water and gas, and are now beginning to do so more and more with street railways and electricity.

The most powerful and convincing arguments urged against municipal ownership are not, however, advanced on practical but on moral and political grounds. Let the municipality extend its activities and you enlarge the opportunities for patronage. Add to the number of public employees and you swell the power of the party boss. Give the municipality more money to spend in contracts and supplies and you widen the doors for grafters. Municipal ownership, in fact, means more politics, more corruption, more dishonesty in public life, and more power in all elements which degrade a city and demoralize a people. These are the last words, the final crushing arguments, of the anti-municipalists. They apply only if we grant one large assumption and make a humiliating confession. If we take it for granted that the evil elements in a community are permanent, that corruption will forever triumph, that politicians will more and more make public plunder their business, that the sense of citizenship and the moral conscience of the Nation will continue to wither and fade, then the case against municipal ownership is complete, just as it is against every form of good government.

If, on the other hand, we have still faith in the moral regeneration of the people, still believe that purity in politics and public life is possible, then municipal ownership is the greatest and final means of reform. It is radical; it goes to the root of the matter and gets rid of the mainspring of corruption. Grafters, corrupt politicians, and all the other parasites who now live by plunder could not exist if there were no franchises to sell, no contracts to give out. Let the cities keep their franchises, operate municipally their undertakings, and the chief source of corruption and the means of temptation will disappear. So long as corporations and contractors are mixed up in city administration so long will the tempter be there, and grit will interfere with the smooth working of the municipal machinery.

But it may be urged, admitting that one evil is eradicated, others are more strongly intrenched. The patronage which falls to the City Council is increased and the power of the city employee is greater—both dangers from which we now suffer. Having extinguished the tempter, the next step is the moralization of the city councilor and the purification of the civil service —neither impossible reforms. The city councilor has long since been discovered in Germany and Great Britain who is prepared to serve his city without any ulterior motive—ready to give his ability and his time freely and honestly to the service of the people. He is making his influence felt in the United States; and without this public-spirited servant, animated by a sense of citizenship, who subordinates all selfish aims, municipal ownership cannot succeed.

Its success also means that a permanent civil service for cities must be organized above party and solely on merit, which only involves an extension of the system which has been introduced successfully in various departments of the United States Government.

While this political danger from the city's employees is always heard of, nothing is said of the much more serious influence of the corporation directors, lawyers, and stockholders. The political dangers feared from an army of municipal employees have never yet been apparent in British cities. To begin with, the workers benefit doubly by municipal ownership—they share in its general advantages and receive just treatment, for a municipality must always be a model employer. Then the interests of the city's employees are divergent. Workers in various de-

partments, while having the same employer, have not common interests. Combination among all is not practicable. In the most developed of British cities, where every public utility service has been municipalized, the municipal employees have not proved a serious factor at election times, partly from the reason that they are too good citizens to attempt a systematic and combined campaign which would lead to reaction, and also partly from the fact that a large proportion of them live outside the borders of the municipality which they serve. Were combined action ever attempted against a common municipal employer, such a foolish proceeding would lead to the drastic remedy of disfranchisement, just as the civil servants in Washington are deprived of their votes, although not for the same reason. The interests and well-being of the whole body of citizens would always preponderate over the action of the city's employees, who must always be a comparatively insignificant minority.

There are those who will admit the whole of these premises, but still only regard the system as an ideal to be reached in the far future. Such would argue that the time is not now opportune; we must go through a transition period; we could not get honest officials; we could not trust the people yet; they do not know how to use their votes. The enemies of reform always fly to distrust of the people. The same reasons were advanced for withholding votes from agricultural laborers in England. They would not, it was said, know how to use them. They could not be trusted. People will never learn how to use political privileges until they get them, and, similarly, people will never know how to run municipalies under municipal ownership until they get the opportunity. There will at first be a period of stress, trial, and turmoil, when loyalty to the people's cause will be strained, when the old system will strive hard for mastery. This experience is gone through before all great reforms are finally established, and has been successfully weathered by loyal service and steadfast courage.

Municipal ownership, it should be borne in mind, withdraws from public life the influence of the stockholder, who, when he goes to the poll, has conflicting aims to consider—his position as a citizen and his interest as a stockholder. When the city keeps its franchise and operates its undertakings, it becomes an industrial commonwealth, as far as public works are considered, with all the citizens as its stockholders. Once the barrier is

past, once the new civic régime is inaugurated, the citizens will not be so short-sighted as to damage their own property. Those of them who hold city stock, bearing its moderate but certain return, will not like its value depreciated. They will prefer to see their city's credit stand well in the market. All other citizens are also partners in the co-operative undertakings which they use themselves or derive benefit from. As good citizens they will do nothing which is likely to impair the efficiency of their cooperative enterprises. Rather they will seek to develop them within their legitimate sphere, and widen the benefits which they confer on the people.

DUAL OWNERSHIP OF PUBLIC UTILITIES IN ALSACE[1]

The city of Strassburg, Alsace, has attempted to work out the vexed problem of private and municipal ownership of public utilities by methods that are believed to be quite unique. There is to be neither private monopoly nor municipal monopoly in the lighting and street car services, but these are to be owned and managed on a dual or mixed management system.

When the present city council of Strassburg entered office in 1908 it found a different organization of the gas and electricity works, and also of the street railway service from that pertaining in other German towns. During the past few decades these services have been taken over by the municipalities in most German towns; in Strassburg, however, they were controlled by private capitalists.

The question of the city's interest in these undertakings was first discussed in December, 1908, and it was decided then not to eliminate private capital from them altogether, but to take over part of the stock and to establish a system of mixed management whereby the city council secured some measure of control over the company. This system has aroused much interest not only in Germany but in other parts of the world. Being an entirely new system here no general principles have as yet been evolved, each case being decided on its merits and according to the particular circumstances which brought the two contracting parties together. It has been found that the

[1] By Consul Milo A. Jewett, Kehl, Germany. Published in United States Commerce Reports. No. 131. p. 1042-5. June 5, 1915.

interests of the community are best served when the public body is able to command a controlling influence in the direction of the company.

Strassburg has succeeded in bringing all the above-mentioned services into alliance with itself, and has asserted in each case the superiority of the public over the private interest. Private capital is invested in the undertakings, but its direction is conditioned by the needs of the town. This is the point of major importance. It is obvious, for example, that the carrying through of a progressive municipal development and improvement policy stands in the closest connection with the control of the street railways. If the electric railways at Strassburg had remained entirely in private hands, it would have been difficult, if not impossible, to develop thinly settled suburban districts.

Strassburg is a city of 186,000 inhabitants. The credit of having introduced the mixed management system belongs to the Strassburg mayor, Dr. Schwander. He applied it first to the electrical works. In December, 1908, when the franchise accorded to the Strassburg Electric Co. was approaching its term, the city council resolved not to purchase the works outright but to proceed with a contract in accordance with which the electric company reserved to the city council 40 per cent of its 11,750 shares of 1,000 marks ($238) each and three seats on the boards of 10 directors. In consideration thereof the council extended its concession to the company until the year 1940. On February 17, 1909, the city purchased 1,182 more shares, thus bringing the larger portion of the stock into its own hands.

So far the dual ownership and control has worked well. The use of electricity for lighting and power has increased rapidly. In 1911, 1912, and 1913 the company paid dividends of 11 per cent. The company pays a royalty to the city on its surplus profits, which royalty amounted to about $100,000 in 1911 and $130,000 in 1913. The total net profits to the municipality in 1913 amounted to 710,375 marks ($168,980), after payment of 432,205 marks ($102,616) for interest on the borrowed capital and for the reduction of liabilities. This represents a profit of 8.68 per cent on the entire capital ($3,088,944) invested by the city council in the electrical works, and is by far its best investment.

Encouraged by the good results of the mixed ownership of the electrical works, the municipality in 1912 made a similar change in the street railway organization. The old private street railway company was reorganized. The capital of the new company was divided into 2,500,000 marks ($595,000) preferred stock, privately owned, and 2,500,000 marks ($595,000) common stock in the possession of the city council. Both kinds of shares bear an immediate dividend of 6 per cent. Of the remaining profit the city takes 30 per cent in dues for the use of the streets and bridges until the profit reaches $71,400; 40 per cent of the surplus profits between $71,400 and $95,200 and 50 per cent of the surplus over $95,200. The concession extends to 1965. The statutes of the company were modified and adapted to the new convention. The municipal council appoints 4 of the 10 members of the board of directors.

The street railway company of Strassburg has prospered. The length of the line is about 56 miles and there are 144 cars with motors and 319 trailers. The net profit for 1913 was $140,443, of which $3,570 was added to the reserve fund and $71,400 was paid as 6 per cent dividends on the capital stock; extra dividends of 1¾ per cent on the common stock and 4 per cent on the preferred stock were also paid. Thus the city received in first dividends $35,700; in dues (30 per cent of the surplus), $19,696; and extra dividends, $10,402; total $65,798. To this sum may also be added the dividend on one extra majority share and that portion of the directors' percentage which falls to the four directors nominated by the council. The above total received by the city is not net profit to the city, however, since the city must pay about half of the amount as interest on borrowed capital invested in the business and for reduction of liabilities.

The dual system in connection with the gas works is the most unique of the three mixed managements and merits a more detailed examination.

In 1840, when Strassburg was a city of France, gas was first introduced by a French company, whose headquarters were at Lyon. After the expiration of their concession in 1856 a new concession of 50 years (1858-1907) was granted to L'Union des Gaz, in Paris, a joint-stock company owning gas works in many European cities. The public interest was only so far considered in this concession that at the end of

that time the entire system of gas pipe was to become automatically the property of the municipality. A similar proviso in regard to the gas works was not inserted in the agreement. About the year 1880 difficulties arose between the company and the city, especially concerning the supply of gas to the suburbs and the relatively high price of the gas. Public opinion at last compelled the city council to take action.

In consideration of the extension of the concession for 25 years—that is, until December 31, 1932—the price of gas was reduced considerably, and further reductions provided for at certain intervals, provision being at the same time made for a better supply of gas to the suburbs. Further difficulties arose in 1905 when the gas company decided to erect a new plant in Kehl, across the Rhine from Strassburg, as the works at Strassburg had reached the limit of their production. The municipality maintained that it was a contravention of the contract to supply gas to the city from works situated outside without first obtaining the consent of the council. The company agreed and accepted the council's terms that not more than 10 per cent of the total amount of gas should be produced at the Kehl works. In May, 1906, the gas company offered to give up their present gas works and to erect new ones at the Strassburg Rhine harbor if the city council would extend their concession another 30 years, or in default of this contribute several million marks toward the expense of the new buildings and the necessary connecting mains. This proposal was not entertained at all by the council. The burgermeister then came forward with his proposal, namely, that the Union des Gaz should convert their Strassburg works into an independent joint-stock company, the municipality to own a majority of the shares and receive a certain royalty from the total income, and in consideration of this partnership in the enterprise the city should extend the concession for a considerable number of years.

For a time the Burgermeister's proposal hung fire. It was only when the Union des Gaz was again faced with the serious difficulty of increasing its plant that it entered the region of practical politics. And then it had to overcome the objection of several members of the city council who thought that it would be unwise to go into an enterprise that would evidently involve a considerable sum of the city's money for new works,

in view of the fact that electricity was replacing gas for lighting purposes and the city was already a half owner of the rival electricity works. Statistics, however, bore out Mayor Schwander's contention that the increase in the consumption of gas for cooking and heating purposes more than replaced the loss caused by the increasing use of electricity for lighting purposes. Negotiations were resumed with the Union des Gaz in 1913 and a compromise was at last effected that was agreeable to both parties and a dual company was formed. The most important points in the new contract are as follows:

A joint stock company is to be formed to supply Strassburg and neighborhood with gas, the capital of the company being $1,904,000, of which the city received $952,238, or 4,001 shares of preferred stock, and the Union des Gaz $951,762, or 3,999 shares of common stock. No money is to be paid by either party for the stock. The new company Gaswerk Strassburg Aktien-Gesellschaft, to erect works at the Strassburg Rhine harbor and, pending their completion, to rent the present premises in Strassburg and Kehl from the Union des Gaz at an annual rental of $36,853. The city retains its right to eventual purchase of the site of the old gas works in Strassburg for $450,772. In addition to its shares in the new company the Union des Gaz to receive compensation for the surrender of buildings, apparatus, etc., to the extent of about $1,190,000 in 4½ per cent. bonds on the new company. The city to receive compensation for the concession extended to the new company in the manner following: The net profits to be applied, first, to the payment of a 5 per cent. dividend on both kinds of shares. Of the profits then remaining the city is to take 50 per cent. in dues or royalty and the other 50 per cent. to go to increase the dividends on both city and private shares up to a further 2 per cent. on all shares. If there is still a balance, 25 per cent. of the same is to be paid as additional royalty to the city, 25 per cent. as preference dividend on the city shares, and the remaining 50 per cent. to be divided equally to both kinds of shares.

On the basis of a capital of 8,000,000 marks ($1,904,000) the city would receive: On profits up to 400,000 marks ($952,000), 50 per cent.; on a further balance up to 720,000 marks ($171,360), 75 per cent.; of the remainder of the profit, 87.5 per cent.

The city's interest in the administration of the company is to be secured by an allotment to the city council's nominees of four places (out of seven) on the board of directors.

In the event of differences between the private and public interests as to the amount of the royalty or the price of gas, a general meeting is to be called, at which a two-thirds majority vote shall be required to carry a motion.

The price of gas, whether for lighting or heating is to be 13 pfennigs (3 cents) per cubic meter. (The former price was 12.6 pfennigs per cubic meter for heating and 15 pfennigs per cubic meter for lighting.) The concession is to terminate in the year 1970.

Such are the conditions of the contract forming the new dual gas company, which became operative in March, 1914.

Calculations are made that the consumption of gas will increase from 18,000,000 cubic meters in 1914 to 46,000,000 cubic meters in 1970; that the cost of producing the gas will diminish, with larger production, from 5.5 pfennigs per cubic meter in 1914 to 5.2 pfennigs per cubic meter in 1970, while in the same

period the profit per cubic meter will increase from 5.3. pfennigs to 5.6 pfennigs. The gross receipts for gas and rent of meters, it is estimated, will increase from $262,752 in 1914 to $662,354. In 1914 the Union des Gaz will receive $130,000 and the city will receive $96,628. The city's proportion of receipts and profits will increase proportionately more than those of the Union des Gaz because of the larger portion of the surplus that goes to the city, and it is calculated that in 1970 the Union des Gaz will receive $188,615, equal to a 10¾ per cent dividend on the stock owned by the old company, while the city will get the tidy sum of $492,588.

SHALL MUNICIPALITIES OWN THEIR UTILITIES[1]

The question asked in the title can only be answered with a reasonable degree of assurance after careful study has been given to two considerations: First, the character of the utility in question; and, second, the degree of intelligent leadership existing in the municipal government.

In the first place a distinction should be made between different utilities on the basis of the functions that they fulfill. Utilities may be divided into two classes that are not always distinctly separated from one another. The first class would include those supplying services connected with public health and sanitation, such for instance as water supply, sewage disposal, garbage removal, street cleaning and park maintenance. All such services are rendered for the benefit of the whole community. It is quite generally held that these utilities should be municipally owned and operated and such is usually the case. Hence, this class needs no further discussion. The second class includes those utilities that serve both public and private convenience and necessity. Among such are electric light and power systems, gas works, street railways, etc. These provide some services absolutely demanded by the community, such as street lighting, transportation, and the like. However, their more important function is to supply special privileges and luxuries to certain classes of private citizens who pay for such in proportion to the service rendered. It is this revenue-earn-

[1] By A. G. Christie. Industrial Management. 53:675-82. August, 1917.

ing service that makes these utilities attractive to financiers. My discussion of municipal ownership will therefore deal only with this second class of profit-producing utilities.

Let us first see what effect the city's location has had on the question of public ownership. A study of cities in Canada and the United States has produced interesting facts bearing on the question of location and organization. Municipal ownership in Canada, particularly in Western Canada, has met with a considerable measure of success. On the other hand, successful municipal ventures in similar utilities in cities of the United States have been relatively few in number, while many have proven partial or complete failures.

It is generally admitted that municipally owned utilities in the United States have failed to keep their plants modern and up-to-date and in consequence indifferent service has been provided. Their rates have been high as a result of the preceding conditions. They have usually lacked competent executives and have consequently been poorly organized and badly managed. Besides, politics have generally been a leading factor in their operation. Furthermore, their finances frequently were poorly handled and their accounting methods were crude and often misleading.

Canadian Experiences in Municipal Ownership

What then are the national or social considerations to which the successful management of the Canadian municipally owned utilities is due?

In the first place British immigrants form a large proportion of the population in Western Canada. They were accustomed to municipal ownership in Britain and looked upon service on local boards as an honor. Their prominent business men sought, rather than shunned, civic responsibilities and introduced business methods into municipal affairs. Finally the spoils system is directly opposed to British ideas of municipal government; hence, these immigrants exert a strong coercive influence to keep politics out of the utility's organization. These excellent British ideas of public responsibility have received ready acceptance from the Canadian and American elements of the population and are a characteristic part of the life of the cities.

Certain social considerations are also apparent in these cities. The West is a "young man's country" with optimistic and ven-

turesome citizens. They are liberal in their views and not afraid to try out new ideas. Besides, there are few vested interests to interfere with putting these ideas into effect and if certain obstacles do appear, means are readily found to overcome them.

The principal basis for the success of their municipal ventures is the spirit of coöperation that is a predominant characteristic of the people of these cities. It is a singular fact that those cities that have not developed this spirit to the fullest extent are the ones that have had troubles with political interference in the administration of their utilities. This coöperative idea has developed largely through the necessity of getting together to promote everything that would boom their section of the country and increase the value of their real estate and business interests.

One may question whether this fine coöperative spirit can be maintained. This is entirely a question of leadership. If the prominent men and women of a city have a public-spirited interest in municipal affairs and render helpful coöperation in governmental matters, other citizens will do the same. However, if only criticism is offered by the leaders, then the public will become suspicious and will soon adopt a hostile attitude toward the management of their own utilities. It is essential therefore for continued success in municipal control that this friendly coöperative spirit shall be maintained by the leaders of business and social life.

Finally, there is a lack of class distinction in the West. This results in a better mutual understanding and a wider range of interests between all members of these communities than in the older centres of the United States. Political machines are harder to build up and keep going under such conditions, and there has apparently been less keen competition for positions in civic employ.

Several writers have pointed out that it may be quite possible to have modernly equipped plants, good service and efficient management in the rapidly growing and enthusiastic communities one finds in the West. Yet according to their views, conditions will not be maintained as the cities grow older and their rate of growth slackens. Let us consider in this connection the activities of the Hydro-Electric Commission of Ontario. This Commission supplies power from Niagara Falls and other water powers to the municipal plants of a large number of

towns and cities in the Province and has proven a considerable success. Such evidence from the old province of Ontario indicates that success in municipal ownership is not due entirely to new conditions in urban life or to rapid growth of population, but rather to the executive capacity of those who are managing the undertaking and to the public support given to the venture in the municipalities.

Organization and Management of Municipal Utilities

The success or failure of a municipally owned utility depends very largely upon its management. Good executive control provides excellent organization and efficient service. Poor administration usually is caused by political interference and results in unsatisfactory conditions.

I spent the summer of 1915 investigating the municipally owned electrical utilities of cities of Western Canada, after having made an extended study of the subject of public ownership, both here and abroad. Some of the technical and financial aspects of this investigation were presented in a recent paper before the American Institute of Electrical Engineers on "The Municipally-Operated Electrical Utilities of Western Canada."

Inquiries were made into the municipal systems of nine of the largest cities, all of which have municipal water works, sewage systems, hospitals and electric light and power services. Five have extensive municipally owned electric street-railway systems. Some cities are engaged in still other municipal enterprises; for instance, Lethbridge operates a coal mine. Regina has its stock yards and Medicine Hat sells natural gas.

This investigation revealed among other things the singular fact that those cities have been most successful where one man has been in charge of the utility for some time and has been directly responsible for its administration. On the other hand unsatisfactory conditions were found in those municipalities where changes of the utility's management were frequent and also where the city council undertook to dictate the utility's policies and to adjust its rates. The results have been almost disastrous where politics have had a part in the operation of the utility. It has also been the experience in the West that it is harder to keep street railways out of politics than electric light plants or gas works, for the more numerous employees can exert a greater political influence.

Several public-utility commissioners in the United States have stated that they have found as great need for regulation in municipally owned plants as in those under private control. They have also encountered great difficulty in definitely fixing responsibility for the execution of their orders in the case of municipal plants. The superintendent usually lacks authority and committees and city councils are notoriously irresponsible. Now with one-man-control there is positively no doubt regarding the responsibility for all business connected with the utility. Furthermore, full responsibility for results develops greater earnestness and initiative on the part of the executive and this tends to produce better and more economical service in the municipal plant.

Experience with municipal ownership in these western cities further indicates that it is even desirable to have such an executive *appointive* rather than *elective*. In other words he should be chosen for his ability to do things rather than for his political popularity. It may not be good democracy to advocate appointive rather than elective officials, yet the facts before us seem to indicate that it produces the best results when accompanied by truly democratic city government.

Municipal-Plant Equipment

Municipally owned utilities have been accused of being slow to adopt improvements and of not keeping their plants up-to-date. This again is largely a question of management. Any competent executive who has reasonably free control of a utility will seize every opportunity to improve his equipment and also the quality of service, if this can be done economically.

Referring again to the Canadian cities, the rapid growth of the last decade has made large extensions necessary to all their electrical plants and hence these are equipped with up-to-date machinery. In fact, some of these plants are among the best equipped stations in America.

One would be inclined to expect that less care would be taken in the maintenance of a municipal plant with failing business than in one with normal service. But this is also true of privately owned plants under similar conditions, so that this cannot be regarded as a fault only of municipal control, although it has been one of the principal indictments of public ownership in the United States.

Financial Problems of Municipal Ownership

When a utility is in private hands, the management is continually striving to maintain rates and to increase profits. While the executive of a municipally owned utility endeavors to secure the best possible economies of operation, the margin of profit is kept small by continually lowering the rates to consumers. These consumers thus gain by any savings effected in the operation of the utility.

There is a fundamental difference between the methods of financing privately owned corporations and municipally owned utilities. In the case of the former, the necessary capital is raised by subscription from stockholders who do not expect that their money will be repaid except in dividends. Such capital is a permanent investment and does not have to be redeemed at any fixed future date.

Now in municipal undertakings the capital necessary to start the utility must all be borrowed on the credit of the city and must necessarily be repaid at certain dates. Hence, debentures are sold to raise this money. The utility's executive is then under obligation to set aside each year certain sums out of revenue to meet the interest on these debentures and to maintain a yearly sinking fund deposit that will provide the necessary amount to retire the bonds at maturity.

Sinking Fund Problems

The yearly interest on bonds cannot be evaded and must be paid out of revenue. On the other hand, sinking fund deposits can be manipulated. If the revenues of a utility for a certain year have been unexpectedly small, a deficit might result if the full sinking fund deposits were made. Under such circumstances the management frequently sets aside a smaller sinking fund allowance than called for, hoping to make up the difference in more prosperous years. But this "make-up" is frequently deferred from year to year until finally an audit shows a considerable deficiency in funds. This deficit must then be made good either by increasing rates, by an additional debenture issue to cover deficiencies or by a general tax levy on the city.

Now at the time the shortage first occurred, consumers were supplied with service at less than full cost to the utility. If rates are increased to make up this deficiency, present consumers must pay more than true cost-of-service and they

naturally object to such rates. An additional debenture issue is equally objectionable for it merely transfers the charge to future consumers. It is an absolute injustice to load this deficiency by a general tax levy on taxpayers who may not use the utility's services at all. The only fair and just system then is to make each year's service bear the total cost of that year.

Sinking funds are usually invested so as to earn compound interest. The proper investment of these funds is a matter of great difficulty and is usually left to members of some finance committee of the local council who, though well-intentioned men, often lack extensive financial experience and sometimes make serious mistakes. Unscrupulous politicians have occasionally had these funds placed so that they could derive personal gain from the investment. Frequently money has been loaned on real-estate mortgages bearing high rates of interest, regardless of the element of risk involved in such investments. Satisfactory investments may be made in such securities as school-district debentures, state bonds and even other securities of the home city.

However, if the term of the debentures exceeds the average life of that portion of the utility they are intended to cover, a depreciation fund must be maintained in addition to the sinking fund. The depreciation funds at the end of the equipment's life must equal the difference between the principal of the debenture issue and the total sinking funds on hand.

The responsibilities involved in handling sinking funds and depreciation funds have stimulated the introduction of serial bonds with terms adjusted to the life of the improvement they are intended to cover. With serial bonds an installment of the principal is paid off each year, together with interest charges on all outstanding bonds. The cost to the consumer is the same in the end as with long term bonds, provided both classes of bonds can be sold at the same price which is now generally the case.

Serial bonds demand a positive yearly payment which cannot be evaded or shifted as in the case of sinking-fund charges. Besides this, the risks, temptations and difficulties involved in sinking funds are entirely eliminated. With the term of such bonds adjusted to the life of the improvement, depreciation funds are unnecessary. Furthermore, such bonds relieve the local authorities of the responsibilities of handling large funds with the attendant worries and cares. Serial bonds seem there-

fore to be the logical securities to issue for municipally owned utilities.

Taxation of Publicly Owned Utilities

Many people hold that municipally owned utilities should be tax-free because they are apparently the property of the people. The bare facts, however, do not support this view.

The services of any public utility may be divided into the three following general classes:

A. Municipal services to other than revenue-producing utilities. A municipal electric station would furnish power and lighting in municipal buildings, parks, streets, etc.

B. Municipal services for revenue-producing utilities. Thus an electric plant might supply power to street railways, to waterworks for domestic supply, etc.

C. Private light and power consumers.

The services of Class A are obviously for the benefit of the whole community and there is no justification for taxing the portions of the distribution system providing such services, or of the generating plant necessary to supply such demands.

Class B services provide privileges which may be of value to the city as a whole, but which are enjoyed only by certain portions of the citizens and are paid for in proportion to the use made of each particular utility. The users of such special service should be expected to pay in their rates the just proportion of that part of the utility in question that is necessary to provide Class B services.

The utility's plant occupies valuable city property; its distribution system uses the city's streets and alleys and it enjoys police and fire protection provided by the city. It is obvious that customers of Class C enjoy special privileges provided by the city, in the use of utility's services. They should therefore pay for these privileges by a tax on the proportionate part of the system supplying their demands. This tax really represents in the end the utility's just share of the general administrative and maintenance expenses of the city.

Rates Under Municipal Ownership

The rates to private consumers in many of the small towns under municipal ownership in the United States are arbitrarily fixed with no regard to actual costs. The town earns some revenue from these consumers but all additional money to main-

tain the plant and to meet fixed charges is drawn from the general taxation funds of the city in return for certain public services. This practice is wholly wrong, for in many cases consumers fail to pay their justly proportionate part for the service rendered and enjoy discriminatory rates. At the same time the city's taxpayers are often charged unduly large amounts for public services.

The only reasonable, fair and just way to charge for such public service is to measure it on meters and to bill the city at the same rates that are quoted to private consumers. The utility is then entirely self-supporting and its finances can be adequately separated from the city's other accounts. It amounts to an independent enterprise financed by the city.

The Canadian cities have operated their utilities on this basis and their rates to private customers have been as low and in some cases lower than those in cities of similar size in the United States with utilities under private control.

Available facts seem to indicate that with up-to-date equipment and competent administration, rates should be as reasonable with municipal control as with private operation.

The Disposal of Surplus

The disposal of surplus when such exists has been a tough problem to municipalities. An analysis of the question indicated that the most equitable way to dispose of surplus is as follows: First, set aside a fund of moderate amount to meet extraordinary contingencies such as fires, floods, etc., and deficits in bad years; second, utilize a portion to wipe obsolescent machinery off the books when such charges exist; and, third, dispose of any remainder as a proportional rebate on consumers' bills at the end of the year. This plan obviates frequent changes of rates and has a marked psychological effect in keeping the consumer interested in the efficiency of the utility's operation.

Conclusions

It will now be apparent that many of the vital questions connected with municipal ownership of public utilities are those involving technical administration and financial control—questions that are entirely beyond the capacity of the average voter. Advocates of public ownership will do well to remember this and if municipal control is secured, they must be prepared to

turn over such matters without question to those who are properly qualified and competent to deal with these problems. In other words they must be prepared to substitute the exact knowledge of a trained manager for the bungling guesswork of the average politician.

The preceding discussion enables us to formulate an answer to the question that is asked in the title of this article, "Shall the municipalities own their utilities?" In view of conditions as they now exist in the United States, it is apparent that municipal ownership is not advisable unless considerable progress has been made in local government and there is a reasonable assurance that fulfillment may be expected of the following conditions: An absolute separation of politics from utility administration; a hearty spirit of friendly coöperation between the public and the utilities; sound financial and accounting methods; supervision by state commissions, and finally the most important consideration—"one-man-control" system with a competent trained executive in charge.

AFFIRMATIVE DISCUSSION

FIFTEEN REASONS WHY THE PEOPLE SHOULD OWN THEIR OWN PUBLIC UTILITIES[1]

1. A public plant does not have to pay dividends on watered stock.

2. It does not have to pay dividends even on the actual investment.

3. It does not have to retain lobbyists, or provide for the entertainment of councilmen or legislators or subscribe to campaign funds, or bear the expenses of pushing the nomination and election of men to protect its interests or give it new privileges, or pay blackmail to ward off the raids of cunning legislators and officials, etc.

4. It does not have to advertise or solicit business.

5. It is able to save a great deal by combination with other departments of public service. Speaking of the low cost of electric light in Dunkirk, the mayor of the city says: "Our city owns its water-plant, and the great saving comes from the city's owning and operating both plants together."

6. Full public-ownership (that is, public-ownership free of debt) has no interest to pay.

7. Even where public-ownership is incomplete, the people not owning the plant free of debt, they still have an advantage in respect to interest, because they can borrow at lower rates than the private companies have to pay.

8. As cities usually act as their own insurers, public-ownership is free of tribute to the profits and agency-commissions of private insurance companies.

9. There is often a large saving in salaries. A public plant pays its chief well, but does not pay the extravagant salaries awarded by millionaire monopolists to themselves or their substitutes in office.

[1] Frank Parsons. Arena. 64:645-6. December, 1905.

10. Public plants frequently gain through the higher efficiency of better treated and more contented labor.

11. The losses occasioned by costly strikes and lockouts do not burden the ledgers of public works.

12. Damages and costs of litigation are likely to be less with public than with private works. Accidents are fewer in a system that aims at good service and safety, and treats its employés well.

13. The civic interest of the people leads to other economies through the increase of patronage and the lessening of waste. The larger the output, the lower the cost of production per unit of service, other things equal, and the tendency to waste electricity, water, etc., is much less when the people know that the service is a public one, the profits of which belong to them, than when they know that the service is rendered by a private corporation charging monopoly rates and making big profits for a few stockholders. These economies are intensified as education and experience with public-ownership develop the understanding and the civic patriotism of the people.

14. The cost of numerous regulative commissions and interminable legislative investigations into the secrets of private monopolies would be saved by the extension of public-ownership.

15. Legislation would cost us less were it not for the private monopolies. For a large part of the time and attention of our legislatures is given to them.

MUNICIPAL OWNERSHIP[1]

There is a natural direction in which municipal functions are extending. I quote from Sidney Webb: "First, where the consumption of a commodity is compulsory, e.g., water supply, second, where no pecuniary return is received for the supply of any commodity or service; e.g., streets, sewers, fire protection, third, where the service is furnished irrespective of cost, e.g., public schools, libraries and parks; fourth, where the good of the community demands . . . that the service rendered be as great as possible, e. g., food inspection."

There will be slight, if any, criticism on any of the foregoing heads, as we have been accustomed to consider them proper fields for municipal activity. Yet not one of them has been so estab-

[1] By W. A. Selleck. Nebraska State Journal, May 12, 1907.

lished without having passed over debatable ground. Indeed the first, waterworks, may be considered by many as still on the field of debate. The second, streets, sewers and fire departments are so regarded only because we have accepted the fact that these are public uses which should be furnished without charge and at public expense. This is a matter of growth in knowledge and experience. Who of us cannot remember the toll road or the toll bridge? It is not two years since we had a private sewer within the city limits of Lincoln.

At first thought it may seem to some that the schools have no place in this discussion for surely no one thinks they should be other than public, controlled and financed by the public. Yet why do we so confidently assert this except as we firmly believe it to be for the public good? The owners of private schools, those who believe in the parochial school might well say that the public by establishing free public schools is enroaching on their ground, making their property less valuable, and in many instances could without doubt make plausible claim that they were doing as good if not better work in training children than the public school. The fact that the public school is so firmly established as to be both a national and a state policy and is no longer left to the whim of the individual city does not make the argument essentially different.

In all of the above mentioned lines municipal ownership is recognized in Lincoln, at least, as beneficial to the public.

I come now to more debatable ground. The last point was where it was desired that the service rendered, or to put it differently, the consumption by the public should be as great as possible. Reversing that statement brings the fifth head, viz: where it is desirable that the public consumption should be as small as possible, e. g. the liquor traffic. Sixth, where improved standards are desirable, regardless of their being financially self sustaining, e. g., public baths, lodging houses, parks, etc. Seventh and lastly, where a monopoly is desirable, e.g., street railways, gas and electric light companies, telephone companies, ice plants. heating plants, garbage crematories.

In this state the public sentiment on the liquor question has apparently divided rather on the line of control or prohibition than of public ownership. One state only, so far as I can recall, having experimented along the line of ownership rather than control of private ownership.

We also recognize parks and libraries as being proper avenues of public activity. In larger and older cities baths and lodging houses are so recognized. The need is not pressing here yet and until the need is felt, public opinion can hardly be said to exist.

The last list of corporations constitute the debatable ground of the present day. Street railroads, gas and electric light and telephone companies, ice plants, heating plants and garbage plants. I have chosen to approach this group by the somewhat tedious process of this paper for the purpose of showing, if I could, that there s no essential difference between this group and the others on which we are all practically agreed.

For a moment, let us compare and contrast them. Take the street car and the gas and electric light and the telephone as the types of their class, and the waterworks, public schools and parks as the types of their class. Waterworks, schools and parks are public necessities. So are the others.

All the people are benefited alike by the waterworks, schools and parks, and are not by the cars, the lighting companies and the telephone, but is that true? On the contrary, is it not more true that the burden of their support falls on all but the benefits are enjoyed by those who happen to be prepared to enjoy them?

The taxpayer who has no children gets only an indirect benefit from the public schools. The man living at a distance from the park does not get the same benefit as the man who happens to have located near it. The house that is not reached by the water main must still depend on the cistern or the well for drinking water. Indeed, light, heat and means of communication either of transporting the body or the voice is fully as much a necessity of city life as is water or schooling or library books.

Does anyone say a man cannot go without water and live? I reply I agree, but he is not obliged to have water pumped through mains as long as the rains descend and the springs of earth do not dry up.

Compare them as you will; contrast them in any way possible and you will find that the reasons which have made desirable public ownership of schools, libraries, waterworks, streets and alleys, parks, etc., are all applicable and cogent reasons for the ownership of any and all public corporations whose business it is to serve the public at large as a public body, or whose business is such as requires a continuous and permanent use of the public streets.

MUNICIPAL OWNERSHIP[1]

A contributor reports on another page the results of municipal ownership of street railways in Glasgow. We believe that his statement of facts can be absolutely trusted; and they seem to demonstrate that, given the right conditions, municipal ownership and operation of street railways may be made highly advantageous to the citizens. New York and Chicago are not Glasgow. The question whether municipal ownership and administration can be made advantageous to the citizens of an American city is not conclusively answered by the fact that such ownership and administration have been made successful in a Scotch city. It is still necessary to ask, What conditions in the American city are necessary to make such success probable, and can these conditions be brought about? In answering these questions we take a concrete case, that of New York City, but the general principles will apply equally, though with modifications, to all American cities of considerable size.

I. The city must not tie its hands by granting to any corporation a permanent franchise to conduct any municipal industry. A franchise to an inter-state railroad to enter the city is not one to conduct a municipal industry; but even in such cases the franchise should always be subject to periodical revaluations. No water, gas, telephone, electric, dock, or transportation franchise should be granted except for a moderate term of years. Where it is possible, the city should build and own the plant, as it has built and owns the subways in Boston and New York. If it has not the money, and if constitutional limitations deny it the right to use its credit, as is the case in New York, arrangements should be made in the contract with the operating corporation by which the property may be purchased at a fair valuation by the city.

II. If the city is to carry on municipal industries—as water, lighting, dock, telephone, and transportation systems—it is indispensable that the city secure for that purpose honest and capable officials. In Glasgow only rate and rent payers vote in municipal elections. "The slums," says Mr. Shaw in his volume on "Municipal Government in Great Britain," "evade the tax-collector and sacrifice the franchise." Moreover, "the extraordinarily severe laws against bribery, direct and indirect, apply to municipal

[1] Outlook. 80:411-13. June 17, 1905.

elections; and it is next to impossible to get a British voter to the polls who does not contemplate the contest with some glimmering of interest and intelligence." Whether it would be advantageous to attach a property or tax-paying qualification to the suffrage in American cities it is useless to discuss; because such limitation of the suffrage, however desirable, is impracticable. It is easy to attach qualifications to the suffrage when it is granted, but almost impossible to do so afterwards.

The result which Glasgow secures by a limited suffrage, American cities must generally secure by another method. By the extension and enforcement of the Australian ballot system, and the abolition of the provision allowing the illiterate voter to take some one into the polling-both with him, a *quasi* educational qualification can be attached to the ballot. Quite as important is a political reconstruction of the city to adjust it to modern needs. The municipal council in most of our cities is patterned after the state and national legislative bodies. But a municipal council is not analogous to a state or national legislature. It is far more analogous to the board of directors of a commercial corporation. The recent act of the New York Legislature in taking from the New York Board of Aldermen, as its municipal council is called, the power of granting franchises and conferring it upon the Board of Estimate and Apportionment is a step in the right direction. But it is only a step. What is really wanted is the abolition of the municipal council which is elected by wards, and the substitution therefor of a small board of not more than fifteen nor less than nine, who shall be elected on a general ticket, or by boroughs, and shall represent the entire city. Experience has proved that ward representation tends to ward politics—the bane of our municipal system. It has been proved that it is almost impossible to get threescore or more of men who are honest and capable, and who will give their time to the details of city administration. And it has also been proved, by the value of the services rendered by the Rapid Transit Commission and by the Board of Estimate and Apportionment, that it is possible to get a small board of competent, honest, and public-spirited men. The work of a city council is administrative, not legislative; and for such work a small body, not a large one, is needed.

Finally, the city must not expect to make money out of its industries; it must expect only to make them self-supporting.

It may be that private corporations will pay into the city treasury more money in the form of taxes than the municipally conducted industry will pay in the form of profits. "The dividends which the city reaps," says our correspondent, "are in the form of civic betterment, lower death rate, and improvement in social conditions." The city will pay here, as it has paid abroad, higher wages; it will prescribe for its employees here, as it has prescribed for them there, shorter hours. It will give to the traveling public here, as it has given there, lower rates. In other words, the profits which have gone into the pockets of capitalists as a payment for their money and their services will be distributed partly among the employees in better labor conditions and partly among the traveling public in better acommodations and lowered prices. No more may be expected to be paid into the city treasury than is necessary to accumulate a fund for large repairs, for important extensions, and for unexpected exigencies.

There is no good reason why any American city should not have an experience parallel to that of Glasgow, provided it will comply with the necessary conditions: provided it will not part with the control of its streets by granting indefinite or perpetual franchises; will frame its city government for administrative rather than for legislative purposes; will develope a civic pride and a public spirit which will inspire men of integrity and of ability to serve the city; will exclude all partisan spirit from the administration of its municipal industries; and will look for its profits, not to treasury balances, but to a purer and better municipal life.

MUNICIPAL OWNERSHIP—WHAT IT MEANS[1]

If a person seeks to deal with a grocer, a butcher, a baker, a doctor, a lawyer or any other similar purveyor of a needed object, he may transact business with some independence. He is enabled to stand at arm's length, to make a free and voluntary contract. If the character of the goods he seeks to purchase is unsatisfactory, he may go elsewhere. If the price his grocer, or butcher, or baker asks is unreasonable, he may go to another.

[1] By Edward F. Dunne. Reader. 7:477-84. April, 1906.

He is not bound by circumstances to deal with any one person or company in the purchase of such necessities of life.

But if this same person seeks to purchase gas or electric light, or to utilize the street-cars, the steam cars, the telegraph or the telephone, he finds himself deprived of the right of free contract. He must take such service as is offered him and he must pay the price demanded. There is no alternative. He finds himself face to face with a monopoly, and he must stand and deliver, or do without. Individual protest against such a monopoly is absolutely unavailing. He may protest against the character of the street-car service, or against the rate of fare charged. But, if he wishes to ride, he must pay the rate fixed and endure the service given or be thrown off. His gas may be of deficient quality, or the price exorbitant, but he must meet the corporation's demands or his meter is jerked out. His telephone service may be unsatisfactory, and he may complain against high rates, but he must pay the price charged or the wires will be cut and his telephone removed.

Private ownership of traction and other utilities has shown that these corporations have wielded, at times a dangerous power in our political life. Yet the cry has been raised by opponents of municipal ownership that public control of these conveniences would lead to the establishment of a "political machine" which would prove a menace to any municipality involved. This cry is wholly false. Hundreds and hundreds of municipalities, where the people have claimed their own, testify to-day to the falsity of this outcry.

Municipal ownership will take the traction and similar utilities *out* of politics. Private ownership keeps them *in* politics. Only a few days ago one member of Chicago's City Council made the statement that he had one hundred and fourteen of his ward "constituents" on the pay roll of the Chicago City Railway Company.

"That's the way I take care of my fellows," he said. "And I've got a lot more jobs with other corporations."

And this is but one alderman who has secured jobs for his followers and lieutenants with one traction corporation. This official, it may be remarked, has voted persistently in the Council for the plans of the traction corporations. Does he get the "jobs" as partial return? I leave the reader to answer. There are other aldermen who have made boast to friends of the num-

ber of "constits" they have placed with the traction corporations. Does this look as if private ownership has kept these utilities out of politics? To this cry of "political machine" it might be pertinent to return the inquiry as to whether any "political boss" in any of our cities ever has been found contending for the principle of public ownership of public utilities. On the contrary, the "political boss," wherever he flourishes, is found eager to continue public utilities in private hands. The reason is plain: Private ownership continues the opportunities for graft, for the traffic in votes for special privileges and franchises, for corruption. Municipal ownership, conducted under rigid civil service, as all its true adherents demand, will remove the "traction problem" and similar questions from politics and effectively and finally displace private corporate and individual privilege-seekers from the positions they have held in corrupting the civic and political body.

The success of municipal ownership in the cities of Great Britain, of Switzerland, of Italy, of Austria-Hungary and of Australia has sounded the knell of private ownership of public utilities in the countries of the eastern hemisphere. It has produced, in almost every case, these foremost results:

First—Reduced the cost of the utility to the public.

Second—Increased the efficiency of the service; brought about the re-equipment of lines and plants in accordance with modern methods; secured regular service with more frequent schedules and less-crowded cars; reduced accidents.

Third—Increased the wages and bettered conditions of the workers who operate these utilities.

Fourth—Made strikes a thing of the past.

Fifth—Eliminated public "graft" and corruption.

MUNICIPAL OWNERSHIP AND CORRUPT POLITICS[1]

The question of the municipal ownership of street railways is not an isolated question, but a part of a great system of industrial evolution that is now going on. Whether regarded from the nature of the service rendered or of the conditions under which they are operated, street railways must be classed as

[1] By Henry C. Adams. Outlook. 70:726-7. March 22, 1902.

public industries; and, this being the case, the question whether they should be owned and operated by the municipality, or controlled through a commission appointed by the municipality, is the only one to be considered. My own opinion, arrived at with some reluctance after many years of hesitation, is that the policy of public ownership and public administration has more to be said in its favor, all things taken into consideration, than the programme of public control.

It is often said that municipal ownership of the street railways would result in the creation of a political machine and in the corruption of city politics. This, without doubt, suggests a most serious criticism upon the plan. At the same time, I am inclined to think there is less likelihood of corruption should the street railways be owned by the city than under existing conditions. The franchise of the street railway in a large city is worth an immense amount of money, and increases in the value at a rate more rapid than the increase in population. This being the case, there is every motive presented for the purchase of political influence, so long as the street railway remains in the hands of private corporations. If, however, the city itself owns the franchise and operates the railways upon it, the Aldermen have nothing of value to sell, and the present form of political corruption at least would be done away with.

There are two thoughts in addition that I would like to suggest. In the first place, are we entirely clear as to what we mean when we use the term "political corruption"? Many things which in private industry are regarded as all right are characterized as corrupt if done by an official of the state.

The truth is, the ideal of public morality entertained by the American people is infinitely purer and higher than the ideal of morality which controls in the business would. We should not forget that municipal ownership means absolute publicity, an established system of accounting, and the unquestioned right on the part of citizens to investigate the manner in which the municipality performs its public duties—a condition which does not and cannot exist so long as street railways continue to be private property.

The second thought which I wish to express relative to this phase of the question is that public responsibility is always followed by a development of the sense of respectability. Men of influence and brains are no longer in this generation influenced

by the amount of money that can be made out of a situation. The political economy which assumes that the struggle for money is an adequate explanation of industrial conduct is sure to err in its conclusions, because it does not recognize all the motives involved. The sense of power and the ambition for influence are equally strong motives to industrial activity with the desire for money. This being the case, the talents and brains of the country will inevitably be drawn into the service of those organizations which grant the opportunity of an exercise of power and influence.

The conclusion from this premise is direct. If the municipalities wish to secure the services of men of talent and of respectability, they must assume functions that call talent into the field and also those that gratify the sense of respectability. History declares that the rise of efficient local government follows the assumption by the government of social responsibilities, and, as exemplified in the United States, that the decay of local government follows the restriction of local functions.

The superficial humorist may reply that this argument involves an amendment of the New Testament to the effect that he who is unfaithful in little things will surely be faithful in big things, which, of course, is not only a misquotation but a misapplication of the true quotation. If the city desires the service of respectability and talent, it must grant to its servants responsibility and influence.

The dangers which attend the experiment in municipal ownership of street railways arise, as it appears to me, from two sources. In the first place, it is likely that the public will demand an immediate dividend from the new investment in an abnormal reduction in fares, and, in the second place, it is not unlikely that the Common Council of the city, in its desire to justify the purchase, will sacrifice the interests of the future to the present. These difficulties, however, may be easily avoided by two simple devices. In the first place, the municipal railway accounts should provide for a deterioration account, and charge up to operating expenses each year an ample sum to cover deterioration. Provided this is done, fares cannot be reduced too low—assuming, of course, that the railways are not to be operated for the public profit. In the second place, the bonds issued for this purpose should include a sinking-fund provision capable of wiping out the debt in a reasonable number of years.

It seems to me that the problem of municipal ownership of street railways and the government ownership of commercial railways are independent problems. The great difficulty in government ownership of commercial railways does not lie in the technical questions of construction and operation, but in the adjustment of a schedule of rates that shall be fair to all sections of the country. In the question of municipal railways this question does not find a place. There are no terminal facilities, since the freight carried, being passengers, is self-loading and self-unloading; there is no need of an extended classification of freight, since all freight for the most part is of the same sort. The question of rates is one that may be easily and simply settled. Moreover, the interests involved in the case of municipal railways are restricted to a small locality, and the result of this is that the policies of administration may be easily adjusted. For many other reasons also that might be mentioned, the decision in favor of municipal ownership for street railways does not involve a similar decision for commercial railways.

MUNICIPAL OWNERSHIP — THE SALVATION OF OUR CITIES[1]

"Municipal Ownership" means the ownership and operation by the city of profitable public utilities, which are street railways, gas, light and water. In nearly all cities of the United States, these utilities are owned by private corporations, with the exception of water. Over half of the water plants are owned by the cities, and perhaps ten per cent. of the lighting plants, but there are very few gas plants, and not over a half dozen street railways.

Of these four utilities, the railways are the most profitable, gas next, then electric light, and lastly water. The importance of pure water and plenty of it—the danger of impure water and a short supply, are some of the causes which have emphasized the necessity for city ownership in the case of water. The ease of installing an electric plant, together with the little capital and experience required, especially for public lighting, are the main reasons why cities are taking over this business more and more. Gas and tramways are the most profitable, being worth millions, and such franchises are the most highly prized.

[1] From article by Theodore F. Thieme. New Jersey Municipalities. 1:13-15. October, 1917.

Private companies operating public utilities do so under a franchise permit, or special privilege, secured from the cities years ago during what is called the "franchise era." This development took place with the change in our cities resulting from the development of steam, electricity and manufacturing. The cities of the United States were forced to own and operate their unprofitable functions, such as education, fire and police departments, public works, etc., etc., but through inefficient, weak and sometimes corrupt officials (a natural product of our bipartisan system), franchises or permits were granted private companies to operate these so-called profitable enterprises. After private capital had secured these franchises, they found it expedient to protect themselves against supervision, regulation and interference by the cities,—and took steps to legalize their overcapitalization.

And so they entered politics, combined with "liquor," created "political brewery bosses" and took over both political parties. They entrenched themselves firmly with special state public utility laws, and now when the time has arrived for the cities to own and operate their public utilities, these private companies are supreme and the cities are helpless. The action of our city officials and councils years ago, operating under a political system, giving away the cities' only sources of profit, is costing the people millions of dollars annually, has robbed them of their government, and actually made the city and its citizens helpless victims and slaves of organized capital and corrupt politicians.

Morris L. Cooke, former Director of Public Works, Philadelphia, says in his pamphlet, "Snapping Chords":

"The unity of policy and action among private interests in the utility field—gas, water, electric light, and others— is almost complete. A small group of financiers and promoters—and their banking agents—provide for the public almost ready made, not only securities, but public opinion, laws, machinery and even the technical experts. . . . .The utility problem, through its bearing on crooked politics and bad government, has become almost the crux of the municipal situation, and as such, its solution is, in one sense, the key to national prosperity."

The agents of Publc Utilities, who are the leading corporation lawyers, associated with the brewery bosses, have become the secret government in many states. *Between these two,* by means of control of political parties, of sources of untold wealth, of

manipulation of political questions, of ownership of the editorial columns of the political press, of the liquor vote—*the entire government* in these states is operated *by* the public utilities and *for* the public utilities.

The evils of this private ownership are loss of control of the government and a system of bad government; this spells inefficiency and waste, corruption and extravagance, which costs the people millions of dollars in taxes. Our cities are made the foot-ball of ignorant, avaricious politicians and grafters of all kinds. Citizenship is a lost virtue. The citizens in their struggle for better conditions have made little or no progress, and have become despondent and apathetic. The citizenship is split up into factions and parties. Religions, nationalities, labor and capital,—all are set against each other in this political spoils and privilege system. Reform is impossible. When the law-makers in the legislature and in the councils, as well as nearly all other officials, are selected by and are in the employ of the political machine, which owns the political parties, the people can get no hearing for their cause. *So long as politicians and public officials are dependent on these powerful private interests and secure their rewards from them, they will not cooperate with the citizens where there is little reward.*

The question may be asked: Are these utilities really so very profitable? There are over $8,000,000,000 invested in street car, gas and lighting plants in the United States, of which considerably *over half* is *watered stock,* or clear profit to the owners, and on which the public must pay dividends. *The National Civic Federation investigation disclosed that outstanding securities of private electric light corporations amounted to* $271.50 *per kilowatt hour unit ,as against* $111.89 *in municipal plants.*

A recent investigation of the civilized countries of the world disclosed the indisputable fact that municipal ownership of all public utilities has been an accepted theory and an accomplished fact for the past twenty-five or fifty years.

The price of gas in English cities averages 56c. Street car fares from ½c up. 61½% of the passengers riding in Glasgow paid 1c; 28% paid 2c. In London 28½% paid 1c; 44% paid 2c. 19½% of the passengers in Sheffield paid 1c; the average fare was 1¾c. Nottingham, 2c. Leeds, 1¾c. Average fares throughout England were 2c. It is customary everywhere to issue ½c

to 1c fares morning and evening for the special advantage of working people. Fares in German cities are even lower.

Twelve large cities in Germany, with a combined population of 7,464,300, showed a net profit in one year from their public utilities of $17,107,300. When Liverpool took over the tramways, it reduced fares 75% and saved the people $2,000,000 a year thereby. Glasgow saved $940,000 a year to its people by lower fares and gave its employees shorter hours and higher pay. Their system is valued at $15,000,000, and over half of it is already paid for. The city of Leeds in the year 1914 showed a net profit on tramways alone of $396,946.

U. S. Commerce Report, under date of November 16, 1915, contains a report of U. S. Consul, S. C. Reat, on municipal ownership in the city of Calgary, Canada, population 83,720. This city owns gas, water, light and street railways, all of which are profitable. Of special interest, however, is their new street railway system. The year ending June 30, 1915, shows a net income of $83,879.21 out of gross earnings of $611,826.00. They have a total track of 71 ½ miles, with 87 cars representing the latest type of construction. Five classes of tickets are used; school, 10-for--25c; work (good for morning and evening), 8-for-25c; ordinary, 25-for-$1.00; and city employees, 30-for-$1.00. On market days a "return-from-market" transfer is granted free. Employees are paid a sliding scale, as follows:

For 3 months' service.....28c per hour
Second 6 months.....30c per hour
For the second year.....32c per hour
For the third year.....34c per hour
After three years.....35c per hour

Time and one-half is paid to men working on holidays. Free winter coats and half-cost of first uniforms are granted, with free uniforms after one year.

MUNICIPAL OWNERSHIP A BLESSING[1]

The increase in the "social sense" which the universal demand for municipal ownership symptomizes is one of the most hopeful signs of the day in America and thruout the world. Cheap, popular, publicly owned rapid transit is the best way to

[1] By John Burns. Independent. 60:449-52. February 22, 1906.

disperse the ghettos of poverty, the slums of misery and the Alsatias of vice. The basis of a happy life is unattainable so long as railroads, ferries, traction and electric light companies are used as, under present conditions, they often are, against social advancement. The home, which is the cradle of character, can no more be solved by the tenement dwelling than city architecture can be improved by a duplication of flatiron buildings. Mount Kisco is a slope, not an elevation, and till municipal ownership of street railways, with a deliberate social object in view, is attained, the workers of the lower East Side, the West Side and other congested quarters must remain in that circumscribed pit of Tophet in which limited space, high rents and restricted company tractions now confine them. Men and money, like manure, are no good in heaps. They putrefy. They are only good when scattered over fresh fields and pastures new.

The greatest agency—indeed, the only agency—is city tractions owned by the city, carrying the citizens, taking the town to the country in the evening, bringing the country to the town in the morning.

Municipal ownership as usually tried in Europe, particularly in Great Britain, has been a counter attraction to drink, a healthy diversion from vice, and has shown the people a more excellent way of personal and national life. The bread of municipal ownership has been cast upon the waters, and has been returned to us, not after many days, but almost immediately. In industry it has made against Sam Parks on one side and Farley on the other. It has infused the embittered car driver and conductor with a proportionate dignified and civic sense of duty to his neighbors who employ him. The municipal car man has reciprocated his share that municipal ownership has brought to him by greater efficiency, civility and loyalty to his employers, the traveling public. The poor and lowly it has helped by reducing distances and saving them from physical fatigue, which, rather than endure by living in the suburbs, when they had to walk, they forfeited for the squalid banalities of slumdom. I know of no section which has lost by municipal ownership in England. Even the dispossessed and generously compensated shareholders have profited by the great increment of social happiness that public traction has brought to all those cities which had the courage to enter upon it.

The chief contribution that municipal ownership will make in America to state, federal and civic development will be the extent to which it kills boodle, destroys graft and eliminates from public life and service the petty corruptions that mortify the flesh in the body politic of America, without the cleanliness and the purging of municipal life that can only come from the moral exaltation that communal pride in public property alone brings. America will be confronted with the greatest problem that ever lay athwart the upward path of a democratic people.

Under municipal ownership there is no one to offer bribes, because there is nothing to sell. The occupation of the thief is gone, because the receiver has disappeared. Any doubts as to the greater cheapness and efficiency of municipal ownership are disposed of by the incontestable fact that in Great Britain—under municipal ownership—roads are better, the staff more loyal, because more contented, and the amazing cheapness of traction is proved by the fact that the average fare of electric car passengers in London is under two cents, while over fifty millions of people ride as one cent passengers.

The effect on housing has been the disappearance in ten years of eighty thousand one room tenements, a corresponding increase in larger tenements and a diversion to common parks and heaths of the women and children, who by traction alone, without injury or loss to any one, now secure, as an everyday right, what, thru company ownership and dear fares, was an occasional and fatiguing privilege.

The educational value of municipal ownership on all classes of a community in Europe is most marked. It is the seminary to the statesman, it is the school to the political economist, it is the college to the reformer, it is the polytechnic to the labor leader. On a smaller, but equally useful, scale the larger duties and obligations of government are learned, and as America fifty years hence will possibly have two hundred millions of inhabitants, it is about time that the assimilation of these millions, the co-ordination of these masses, the directing leadership of this host should be provided with civic guides, municipal philosophers and neighborly friends, so that the path of the greatest community of free men should be not only straight, but clean, and till some field of apprenticeship for this stewardship for the leaders of the future is provided, America's future will be not the conscious ordering, but a sordid welter and an undignified

scramble for mere money, which is the present creed of the corrupting boodler. Municipal ownership destroys this species and in so doing discourages and renders impossible the sad revelations that your insurance scandals have revealed. Appetite grows by what it feeds upon. The seed of corruption dropped by the political agents in elections, in defense of their franchise and to extend their power, becomes a seed-plot from which is reared the upas tree of state defilement. President Roosevelt realizes that it may reach, if it has not already done so, federal political life. Why be wise after the event? Prevention is better than cure, and surely American opinion, after having read the "Shame of the Cities," might save itself another book called "The Crime of the Republic." Both can be avoided thru the trade union, the labor leader, social idealists, city merchants, the governing aldermen, the men and statesmen, all uniting in a movement that experience unanimously testifies in Great Britain is the greatest ameliorative agency, as it has been the greatest moral force that fifty years of brilliant, continuous and glorious success has secured the Anglo-Saxon people. America is not cursed with that heritage of snobbery, feudalism and convention that Old World communities have had to contend against. Its immunity from these disabilities gives it greater power than it ever dreamed of, and yet public utilities lie across its continent a fallow field trodden only by privileged monopolies, and denied to the citizen without toll, exaction and fraud. If democracy is to justify itself, as I hope and believe it will, it can only do it by the municipal ownership equipping the American people with the one thing they supremely lack as compared with Europeans, and that is cleaner, purer civic life, without which personal wealth is a mockery, national resources a misused gift and their constitution a thing of paper.

It is said that the municipal employee may become a serious and dangerous influence, when the source of his income is owned by the community in which he is a voter.

This fear seems to be a stumbling block to a great many well meaning and sincere people. My answer to it is this: The test from experience is all the other way. As a rule, municipal employees have been modest in their claims, reasonable in their demands, and, as an invariable rule, municipal labor has been singularly free from strikes and other disturbances. At the worst, these must always be in a minority. The employees of a

municipality never have any difficulty in getting, without threats, as a right, what now is occasionally wrested from the private companies by sacrifice, pain and disturbance for the whole community. In a word, municipal ownership, apart from being good for passengers, best for cities, cheapest for the poor, is the line of least resistance for the solution of industrial problems, is the way that wisdom directs and necessity compels. The extent to which municipal ownership prevails in any country is the standard of class co-operation by common means for common ends.

The car barn vote introduces into politics the interested "pull" to an extent that is impossible under municipal ownershp, because the usual political differences operate with men under municipal ownership, and thus create an electoral equipoise which is impossible so long as men's employment depends upon votes, as it too often does, under company rule. The danger of the municipal employee is a bogie which is always raised in America, which we have buried for all time in the old country. To their credit, they rarely, if ever, abuse the position that municipal ownership gives them, and if they were inclined to do so against the community, the community in turn has always a better, a simpler and more peaceful remedy than now prevails.

ADVANTAGES OF PUBLIC OWNERSHIP AND MANAGEMENT OF NATURAL MONOPOLIES[1]

It may be said in favor of public ownership and public management, that by this means the regulation required by the general public arises out of the nature of public property. When private persons manage private property, the natural thing for them to do is to manage it in the interests of private individuals. When public property is managed by public authorities, the natural thing is to manage it in the interests of the general public, because the ownership is, by the very hypothesis, vested in the general public. The easy and natural thing to do is to manage property in the interest of its owner. It is, as a rule, right and proper to manage private property in

[1] By Richard T. Ely. Cosmopolitan. 30:557-60. March, 1901.

the interest of private persons, and not infrequently it is gross abuse of a trust to manage it otherwise. It is, on the other hand, a perversion of public property to manage it in the interests of private persons. As in the case of private ownership of natural monopolies it requires a pressure diverting property from that management springing up out of the nature of property, to secure the public ends, so it is only through an open and acknowledged abuse of a public trust that public property can be otherwise managed than to promote the general welfare.

It is a decided advantage of public ownership coupled with public management, that it makes clear the issues before us with respect to natural monopolies. Exactly what the situation is, may readily be discovered. The source of evils which exist can be ascertained, and steps taken to introduce appropriate remedies. Naturally there may be resistance, and frequently there is resistance, on the part of private interests to a wise management of public property and public business. This resistance has various sources. Partisan politics will occur to every one as one source. The low and degraded view of public office as a reward of party service and not as a public trust, is one of the great evils against which the American people have been contending for a generation. On the whole this contest has been successful, although there still remains much to be done to bring about popular enlightenment concerning the true nature of public office and to cultivate a finer sense of right and wrong with respect to it. A more dangerous, because frequently a more powerful and always a more insidious, source of resistance to right management of public undertakings, is found in the selfish interests of private corporations and powerful private combinations of one sort and another. It was the political machine of Philadelphia acting in harmony with a private corporation, which turned over the public gas-works to a private corporation. At the time this article is being written, this same political machine is opposing the improvement of the public water-works, and is favoring a plan to lease them to a private corporation. The people of Philadelphia have already approved a loan the design of which is to improve the public water-works, but the political machine, in the service of private interests, resists needed improvements. There is strong reason to suspect that private parties in their own private

interests sometimes do what they can to make public enterprises a failure, and there is also a very wide-spread effort to represent public activities of every kind as much worse than they really are, coupled with a reluctance to acknowledge merit on the part of those engaged in the public service. In consequence of this, it becomes necessary to go behind the politician, often a mere tool, to find the real power behind him, and this real power may belong to the very respectable elements of the community.

There must inevitably be a struggle to establish the policy of public ownership of natural monopolies, but when this policy is once thoroughly established, when it comes to be so thoroughly approved and so firmly rooted in our life that an effort to upset it is manifestly hopeless, it must enlist in the cause of good government the intelligent and well-to-do element in the community. There will then be established a harmony of interests which is now so sadly wanting.

It is often said, it is said, every day by press and pulpit, that the better class of the community is apathetic. But why is this the case? What's the deeper, underlying cause? When the better class of the community feels itself and its interests seriously threatened, it is by no means apathetic. Take the better class of New York and Boston in its attitude upon the question of silver monometallism. This better class has a very clear idea concerning its own interests with respect to the free and unlimited coinage of silver, and will any one claim that with respect to this question it is apathetic? But what is the interest of this better class with respect to excellence in municipal government? Would not their franchises suffer, would not the terms under which they are able to serve the public with their property, be changed for the worse for them, by municipal reform? Probably in every great city in which the policy of private ownership of municipal monopolies obtains, the number of persons financially interested in this private ownership exceeds by far the number of officeholders. Can the apathy and indifference they show be a source of surprise? Must it not, on the other hand, be a source of surprise that in many of our cities there is so much effort as we actually see on the part of the well-to-do to establish good municipal government, even when this involves a considerable amount of self-sacrifice?

We indulge in no attacks on individuals or classes. We are attempting to show what course of action men's interests lead them to take, and we ask this question: Can we base a public policy upon the hypothesis that a large and powerful class in the community will act in a manner contrary to its own interests?

In all the cities of the world where there is a thoroughly established policy of public ownership and management, the well-to-do find that their interests are bound up with those of good government. It is a great thing so to clarify the situation that we can find out exactly what are the obstacles in the way of improvement.

Closely connected with what has gone before, it must be observed that while malignant forces tending to degradation will exist under public ownership, some of the more powerful forces of corruption will disappear. The purity of public life will then simply depend upon the general level of intelligence and morality, and if that is as high in New York as in Berlin, there is no reason why in the course of time New York should not, equally with Berlin, secure a model government.

Another advantage resulting from public ownership of natural monopolies, coupled with excellence in their management, would be the fair and impartial conditions under which private business would hereafter be conducted. We have now a class of dependent monopolies, monopolies which are not such in their own nature but such because they receive favors from monopolistic enterprises. It is at least questionable whether in agriculture, manufacture or commerce any monopoly could be built up without public or private favors. If an agricultural, manufacturing or commercial business is not aided by positive legislation, and is not assisted by special railway rates or favors of any sort coming from any other monopolistic undertaking, the writer is not prepared to admit that it can become a monopoly. An exception, of course, is made of those enterprises based upon very limited supplies of natural treasures, such as anthracite coal.

Enlarging the field of public industry would give a career in the service of the public to talent; it would tend to establish a balance between the advantages of public and private life,

and could not fail in an intelligent and, on the whole, upright community to ennoble public life.

It is gratifying to see that to an ever-increasing extent these truths, not after all difficult of comprehension when serious attention is given to them, are coming to be accepted. While this article is being written, a campaign is in progress in one city in which the candidate of the Republican party has given as clear expression to these truths as one could desire. As reported by a prominent newspaper, he states his views in part in these words: "If elected, I expect to continue in my attempts to carry out the principles of my platform of two years' ago, reiterated in the platform of this year, for the public ownership and control of public utilities, such as water, gas and electric-light plants, street-railways and telephones. . . . I should like to see a civil service law enacted to go hand in hand with these reforms, but I do not believe that we should wait for such a measure. I am firmly of the opinion that the public ownership of such franchises will of itself bring about civil service reform. Municipal ownership will do more than any other one thing to improve city government in America. In my opinion much of the poor and bad government in city affairs is due to the influence of franchise-holding corporations. It is to their interest to have poor government, to secure the election and appointment of officials whom they can control to their selfish ends. We have seen examples of this in our own city, where local corporations exerted their influence against salutary measures looking toward civil service and other similar reforms."

On the other hand, the platform adopted by the Democratic party in another city in the campaign which is at the same time in progress, shows that the recognition of these principles which the writer is endeavoring to establish in this article is not confined to any one party. The following is one of the planks in this platform:

"We believe the prevailing corruption and bribery in all large cities to be caused by the fact that public utilities are controlled by private corporations. The dependent relation of corporations upon the good will of aldermen, coupled with the frailty of human nature, makes it impossible to secure official honesty. While there are disadvantages attendant upon municipal control and ownership of public utilities, they are in-

significant compared to the wholesale corruption and bribery incident to control by private corporations."

The methods to achieve the desired transformation in our public life are many. Every improvement in the civil service is helpful. The diffusion of knowledge begetting clear-cut ideas concerning the nature of public corruption, as well as sound ideas concerning social progress, is the chief force producing a movement in the right direction, and the number of educational agencies at work in the enlightenment of public opinion is as gratifying as it is surprising to one who has not considered the subject. The popular educational agencies which have come into operation in the United States during the present generation, are something without a parallel in the world's history. We have our great Chautauqua movement and other similar movements almost innumerable. We have our University Extension movement, together with the unparalleled activities of our universities in all branches of learning which pertain to public life. Our state universities, a part of the governmental machinery of our states, are undergoing an expansion and an improvement which would have been deemed incredible even ten years ago. Once more, we have a serious proposal to establish a national university at Washington, and if this is ever established it will no doubt become a civic academy, doing for the civil service something like the work which West Point and Annapolis do respectively for the army and the naval service.

While the influence of the press is often devoted to private interests, it is gratifying to see the stand which not infrequently influential newspapers take in behalf of the public, even against powerful private interests. At the same time, the public conscience is being educated by the pulpit. Most gratifying is the public spirit of many men of large wealth who are active in the promotion of good government, while organizations of business men, for example the merchants of New York, are frequently taking a noble stand in defense of popular rights. We may, then, in conclusion say that while the obstacles to reform are many and progress must in the nature of things be slow, the situation is on the whole a hopeful one. We must not expect great changes this year or next year, but we may feel pleased if there is a steady movement in the right direction. Nor must we be fanatical adherents of any one particular reform. Social improvements come in many different ways and

from every direction. Each one sees but a fractional part of the truth, and must be satisfied if he contributes a little part to the grand work of social amelioration.

WHAT HAS AND CAN BE DONE BY MUNICIPAL OWNERSHIP AND CONTROL[1]

Cleveland owns and operates her own street-repair street-cleaning departments, her police and fire departments and her health bureau. She also owns and operates her parks and boulevards, and maintains a vast farm colony for her criminal, sick, and infirm. "But," it will be asked, "what is there novel in this? Do not other American cities own and operate these activities, and is it not almost the universal rule throughout the world?"

I ask in reply: "What is there novel in the ownership of an electric light and power plant, or in the control (which is the next thing to municipal ownership) of a street-railroad system?" For citizens of Cleveland have come to the frame of mind where the latter form of municipal enterprise is regarded as no more unique than the policing and cleaning of urban areas.

The question may well be asked whether there are any vital differences in the various social agencies and endeavors of a city which make some adapted only to direct ownership and control by the people and others a peculiar province of private enterprise. My answer is that there are none, but in view of the heated and controversal condition of public opinion on this point it would be idle for me at this juncture to attempt to convert those who differ with me. I am more concerned in detailing briefly the results of Cleveland's experience in her better-known enterprises, so as to permit whatever good has come therefrom to become common property, and I am willing to let municipal evolution in America take its course in enlarging and deepening municipal enterprise, confident in the belief that within a comparatively short time history will show the boundaries of municipal government widened in every direction *and including the management of every social necessity.*

There really is no magic about Cleveland's public-utility experience. In common with her sister cities of America she had

[1] From article by Newton D. Baker, Secretary of War. Hearst's Magazine. 32:188+. September, 1917.

been witnessing the exploitation of her transportation, gas and electric facilities for years and saw that service or the quality of the product either stood still or was deteriorating, while huge profits were being amassed by certain foresighted men who had placed themselves in strategic positions in the days when Cleveland was becoming an assured metropolis. At the same time she was noticing the quality of her muncipal administration gradually but constantly improving, and commensurately the cost to the taxpayers diminishing.

Why, then, was it not the natural thing to ask whether the same efficiency and cheapness could not be injected into activities that were just as social in character as those then comprised within the recognized limits of municipal activity? And the question was asked, and was not answered until Cleveland had settled her street-railway problem on a basis where the car lines are run primarily for service and secondarily for profit and electric-light facilities at low rates had been carried into the humblest homes. But these victories were not accidental. Cleveland won and is still winning her fight because she has relied upon the ultimate success of justice and fair play in the solution of these problems. And so while the past fifteen years teem with incidents of a heroic and romantic character, *at the bottom there is no witchcraft about successful public ownership or control of local utilities, and there is nothing in Cleveland's success which cannot be duplicated in any other American city whose citizens will supply the necessary courage, resolution and intelligence for the task.*

It would be going far afield to give a complete and detailed account of the many ramifications of Cleveland's traction history Readers are doubtless familiar with the broad outlines of that ten-year struggle: how Tom Johnson came back in 1900 to take up his permanent residence in Cleveland and to devote the remainder of his life to the betterment of municipal conditions, how he campaigned and won the office of mayor on a platform pledging uncompromising opposition to any franchise renewal which provided for a higher rate of car-fare than three cents, how he was elected and reelected three times on the same issue, how as every tick of the clock brought the railway franchises one after another to their expiration, the Company offered six, then seven, and finally eight tickets for a quarter, how even a President of the United States was drawn into the fight to give

his endorsement to one of the Company's mayoralty candidates, how with victory at last within reach the people turned Johnson out of office—spent in health and vigor, wrecked in fortune, but undaunted still in spirit, and how on the ashes of his defeat his associates, with Judge Robert W. Taylor, drafted a settlement that embodies most of the salient principles for which Mayor Johnson stood and which gives Cleveland car-riders transportaton at cost, the municipality control of service and upkeep of property, and the company management and operation of the lines for a fixed term on an agreed valuation of the system.

All these are more or less familiar chapters of the Cleveland traction controversy. They represent the steady unfolding of the Johnson theory of street-railroad control, though in the end the Tayler ordinance (which is the name the plan goes by in Cleveland) contained in Mr. Johnson's view such vital defects that before his death, when the ordinance was up for ratification at a referendum election, he opposed its approval because it provided a capitalization that still contained $8,000,000 of water, too high a maximum rate of fare, and cumbersome arbitration machinery for the settlement of disputes.

The people, however, approved the Tayler ordinance, and on March 1, 1910, it went into effect.

That brings us directly to the concrete results of operation under the Tayler ordinance. We may as well epitomize the situation right at the beginning:

Three-cent fare with universal transfers, unrivaled day service and excellent rush-hour service, in well-ventilated and well-lighted cars, running on as good a roadbed as can be found in any city of the country and operated by the highest-paid, best-treated trainmen in the world, is an actual, persistent reality on exhibition twenty-four hours a day in the city of Cleveland, which has a population, including its environs, of 800,000 *inhabitants.*

Service has been constantly improved both during the day and in the morning and evening rush hours. Throughout the day only about five hundred cars are needed to operate the lines, but at night traffic checks show that over three times that number are needed and the company operates upward of fifteen hundred cars between four and six o'clock p. m. It has been said on good authority that there is not a city in the country that

operates three times as many cars during the peak period as are operated the remainder of the day. The explanation is simple—in Cleveland profits are limited to six per cent., and the aim is to secure the "best transportation at cost" at all hours; elsewhere, profits are unlimited and the aim is to nurse the system along during the day, and, using substantially the same number of cars, make a "haul" in receipts in the morning and evening by crowding equipment to capacity.

No better rolling-stock will be found anywhere in the country. Hundreds of large center-entrance motor cars and trailers have been purchased in the last three years, the purchases being the largest in American railway annals for a similar period of time. Trailers were bought because rush-hour equipment was only needed for two or three hours a day. Trailers cost $3,000 apiece instead of $6,000, the cost of a good motor car; consequently, they reduce the money tied up and are drawing interest twenty-one out of twenty-four hours, while doing the work more efficiently than two motor cars, for it is easier to operate a train of two cars through crowded streets at night than two motor cars separately. Plans for the future call for the purchase of one hundred and fifty to two hundred cars annually.

Nor have the roadbed, equipment or overhead construction been allowed to run down. The two chief falsehoods about the Cleveland traction situation that residents are frequently called upon to refute regard service and upkeep. The former has been discussed. As for the latter, all that need be said is that during the first three years of operation, March, 1910, to March, 1913, there was spent the sum of $4,200,000 for maintenance and depreciation. During the same period the average physical value of the system, including cars, track and power facilities, was $17,600,000. In other words, in three years nearly twenty-five per cent. of the entire value of the road was spent to rehabilitate and keep the system in a high standard of repair, and this out of current earnings. If this policy is adhered to in the future, the system will be renewed out of earnings at a rate that will substantially replace it in twelve years. When one considers that the lowest life placed upon a street-railway property by experts is fifteen years, Cleveland's rate of replacement appears extravagant under five-cent fare and impossible with three-cent fare. Nevertheless "there is such an animal," and Cleveland is keeping her street-car system in unrivaled condition under three-cent fare.

And now what about the actual dollars and cents saving? In the six years and more that have elapsed since the ordinance went into effect, a saving in car-fares of approximately $25,000,000, or about $4,000,000 annually, has been realized for the car-riders. That this has meant a substantial saving to everybody, especially the poorer classes, goes without saying. The average family of five, for example, has saved about $40 a year. But permit me to make a more significant, if somewhat fanciful, comparison. Four million dollars is five per cent, annually on $80,000,000. If Tom Johnson, instead of dedicating his talents and efforts to the street-railroad problem, had continued to devote them to the accumulation of a huge fortune, and at his death had left $80,000,000 to the city with a direction that it be spent for beneficent municipal undertakings, he would have been hailed as one of the greatest of modern benefactors. Monuments and memorial halls and bronze tablets would have been dedicated to the perpetuation of his memory, for his bequest would have added vastly to the facilities of the city. But Tom Johnson did something better than leave money. He taught the people of Cleveland how to make $80,000,000 for themselves, how by joining hands and reclaiming their own domain—the public streets—they could earn the right to all the fruits that resulted therefrom. And by teaching them how to do it in tractions he blazed the way for similar collective efforts in the field of other municipal utilities.

Undoubtedly one of the most wholesome results of three-cent fare has been its effect upon the housing problem. A high rate of fare for a long distance absolutely compels the poorer classes to live within the zone of cheap fares. This has been one of the chief reasons elsewhere for congested tenement districts. Cleveland scarcely knows what the tenement-house problem is, and as years go by the possibility of the problem becomes more and more remote. Three-cent fare is doing it by making it possible to live eight or nine miles from the center of population, and to ride twenty miles across town for a single fare. Make it possible for people to live out in the open away from the stress and turmoil and crowding of shop, factory and business districts by furnishing cheap car-fare, and the tenement-house problem will solve itself.

The company is a generous employer The rate of wages for motormen and conductors is thirty-one to thirty-four cents higher than the average rate in the United States, whether for

unionized systems or not. This liberality of compensation to operating employees is characteristic of the compensation to all other employees, both salaried and wage-earning.

What, then, is the secret of Cleveland's pronounced success with three-cent fare? The answer lies at the surface and is the same as may be given for the success of any sound and enterprising business. First, reduction from five-cent to three-cent fare has resulted in a heavy stimulation in the number of car-riders. This, together with the increase of "short-haul" traffic, has been so tremendous as to materially cut down the losses due to fare reductions. Secondly, and this supplies the rest of the explanation, the property has been operated on a valuation approximating its real value and without possibility of speculative profits.

The profound popular education and awakened civic conscience which the traction war had brought about naturally did not cease with the successful consummation of the street-railway struggle On the contrary, it made the people of Cleveland zealous about public propery and public rights in every direction and keen for a wider and fuller extension of municipal enterprise. Consequently, it was not long before public attention was turned toward the electric-light monopoly. During the street-railway fight the local electric monopoly had made itself conspicuous by giving aid and comfort to every individual or movement that was engaged in throwing obstacles in the city's path. And Tom Johnson had prophesied that with the settlement of the street-railway situation the solution of the electric-light problem would come next.

His prediction came true only a few months after his death. In November, 1911, after a stirring campaign, the city of Cleveland voted on a bond issue of $2,000,000 to build a large modern municipal lighting plant, and to enlarge and extend the then-existing distribution system, with the understanding that current was to be sold for electric light and power purposes at a rate not to exceed three cents per k. w. h. At that time the city owned and operated two small plants, one in South Brooklyn and one in Collinwood, both of which had been acquired when these villages were annexed. The proposed plant was therefore to be the city's first undertaking on a large scale, one sufficiently large to give effective competition to the entrenched monopoly. The result of the election was decisive.

The bonds were authorized by 12,500 more than the two-thirds majority required.

The rates have been constantly maintained in spite of severe competition from the private company, and each month has seen the roll of customers growing in number. At the present time the plant has 17,250 customers. Each day puts the enterprise more firmly and securely on its feet, and in spite of the combination of low rates, good service, high wages and expensive fuel and raw material, the success of three-cent light has been established. It will soon be necessary for the city to enlarge its system with the construction of another bg unit. The demand for cheap light has been so persistent that the plant has found it impossible to withstand it and both a new generating station and additional distribution lines will have to be built to keep pace with the demands of customers and the growth of the city.

How has this affected the dominion of the local monopoly and to what extent has the city solved its problem? It is commonly known that erstwhile practices of discrimination have been and are being gradually eliminated, that the service has improved markedly, so that the company now advertises this factor as one of its chief advantages, while rates in several classifications have been reduced. The company has a lively appreciation of and a wholesome respect for its competitor, maintains a very active publicity bureau to extol its own virtues and deprecate the need of importance of municipal ownership, and every phase and department is "on its toes" to turn every new situation to the advantage of the company.

The city, meanwhile, has passed an ordinance fixing the maximum rate for privately manufactured electricity at three cents per k. w. h. and this ordinance has been in effect since June, 1914. Of course, the company contested its validity and appealed to the State public utilities for relief from the rate. The appeal, however, obligated the company to put up a very large indemnity bond to protect consumers in the rebates above the three-cent rate to which they will be entitled if this rate is ultimately sustained, and it also precipitated a thing the company had long and ardently resisted, namely, a physical valuation of its property. This valuation has been completed, and together with the contested rate is now pending for determination before the State Commission.

Thus, up to the present moment, the city's progress in the solution of the electricity problem has been successful and profitable. Three-cent current with adequate service has been demonstrated as much a success as three-cent car-fare. All the elements for a permanent and satisfactory settlement are now in the hopper, and with intelligent and vigorous advocacy of the city's case on the part of her administrative officers there need be no doubt about the outcome. Whether it be effective regulation in the interest of the consumer, or consolidation of the two plants under municipal ownership, matters not. Inevitably victory will be with the city and the people will be generously and rightfully rewarded and reimbursed for the costs of the conflict. For municipal control and ownership of all enterprises affected with a public interest are obvious chapters in the evolution of the American city.

MUNICIPAL OWNERSHIP OF PUBLIC UTILITIES[1]

Progressive Democrats are for municipal ownership, primarily, because they believe in democracy. They believe (1) that competition in the public services is impracticable; (2) that municipal ownership will pay, either in cash savings to the taxpayer or in cheaper and better service; (3) that municipal ownership is a political necessity, and will remove the main and most threatening source of political corruption.

There is a fundamental difference between a corner grocery, for instance, which can spring up anywhere, and an industry like a gas company, whose very existence depends on a grant from government, and whose first nourishment is the right to use the property of the community, the public streets.

In Baltimore, Maryland, the native city of the writer, there was for a time so-called competition in every public-service industry; the result was some temporary benefit, perhaps, in reduced rates or improved service; but in the end came consolidation, with a capitalization bearing interest on two franchises instead of one, and a not inequitable plea on the part of the combined company to the effect that "you, the people, have

[1] By George Stewart Brown. North American Review. 182:701-8. May, 1906.

forced us to this condition of over-capitalization, and must help us bear the burden."

This has resulted in confusion worse confounded both to the corporations themselves and to the public mind, which has failed to grasp the real nature of the problem. So-called competition in public-service industries is not competition at all,—it is war. The stronger company either buys out the weaker at once without further parley, or it divides the territory with the weaker, if the territory is big enough to divide, and agrees on rates; or it temporarily lowers the rates below the point of profit until the weaker succumbs. As a matter of fact, with the exception of the telephone service, industrial public-service war has had but one universal result, consolidation. Not a single instance to the contrary can be cited. The tendency to consolidation has become so strong that lighting companies furnishing different kinds of lights, like gas and electricity, are now combining, although they largely supply a different field and class of customers. No ingenuity of the most skilled lawyers can prevent consolidation. On the other hand, when a few consolidations here and there have been found illegal, a new method has always been invented to keep the separate interests together, or to reunite them in fact if not in name.

Granted that a public service must be a monoply, the people will not long tolerate a monoply in private hands. They will perhaps try regulation first; they will sooner or later insist that, if a monoply, it must be a government monoply, operated solely for the public benefit, instead of a private monoply, operated primarily for the purpose of private gain, and only incidentally for the service of the people.

One item is almost universally neglected in considering the financial success or failure of city ownership, and that is the capitalized value of the right to do the particular service through the use of the public property in the streets. Let us assume, for illustration, two companies in cities of the same size with their two tramway services, or electric-lighting services, costing the same sum for instalment and with the same rates and an equally efficient management—two business enterprises, that is to say, earning exactly the same amount of money, and identical in their conditions, except that one is public and the other private.

Let us suppose that the value of the actual material property of each, bought and constructed, is $50,000,000, and that the

private concern pays interest and dividends on a capitalization of $100,000,000, the other $50,000,000 being the intangible value created by the permit held by the private concern from government to use its combined material properties in connection with the public streets for the required public service.

Thus we have the interest on $50,000,000 saved for our equally efficient city service. That is the saving to the city, or the margin of efficiency, which our supposed public concern effects as compared with the equally well-managed private company. Now, in Baltimore, for instance, the attempted easement assessments, under a plan similar to the New York Franchise-tax law, amounted to $23,000,000, and they were moderate, because they did not attempt to reach all the intangible value, but only so much of it as came directly from the use of the city streets. Yet this is half the city debt; and, if the same ideal condition had existed in Baltimore as is supposed in our illustration, the effect of public management would have been like cutting the debt in two.

To return to our illustration. Fifty million dollars is paid by the first city to the private company for rendering a governmental function, whereas the other city saved that amount by performing that function itself; or, to state it in a different way, the public concern would have to be only half as efficient as the private company to produce the same result to the city.

It is absurd to attempt to settle finally the right or wrong of the policy of municipal ownership by reference to the results of any specific instance, just as it would be ridiculous to conclude that individual failures or successes in the banking business demonstrated the folly or wisdom of following that business as a calling. Yet Philadelphia, the stock example of the opponents of municipal ownership, is always so quoted, without regard to the question what Philadelphia gained in the increment of franchise value while it held on to its public service. Compare the advantages which Philadelphia gets out of its present lease of the gas-works with the condition of Baltimore with a company operating under a perpetual franchise. Now, Philadelphia's present advantage is due to the fact that, at the time of making the lease, it had a large accrued franchise value to dispose of, and who can say off hand that its long-continued policy of holding on and operating was worse, on the score of past extrav-

agance and debauchery, or better, on the score of present advantages derived incidentally from that very policy?

The writer believes it is a recognition of the value of the capitalized franchise that makes us hold on to the one public service that is generally municipalized, namely, our water-supplies. Logically, our reactionaries should advocate the turning over of our water-supplies to private enterprise. Why not, if municipal ownership is so bad?

Whatever the reason, we seem to have finally reached the conclusion to hold tight to what we have. For, even in the most reactionary communities, any proposition to give up a municipal water system to private management would be immediately laughed out of court. The varest tyre can see that now he pays for water the actual cost, namely, the low rates of interest on city capital expended for plant *plus* the actual running expenses of the department, and that any balance goes to a lowering of his tax rate, while, were it farmed out, he would at once begin to pay in addition interest upon the watered flotation of a private company capitalized on its franchise value. Even if he thinks the private company could hire men for lower wages, save money on its supplies and in many other ways, he knows that the new item would largely exceed any such savings; and he also instinctively feels that, as that franchise value grows with increase of population, the capitalization on which he must give a fair return will grow with equal pace.

To show still further that we are conscious of this same idea concerning the franchise value to be given away, it is worthy of note that, in considering the establishment of some new service, such as a subway for underground wires, or a sewerage system, we invariably favor municipal ownership, entirely without respect to making it pay as a business proposition.

In the fight to put the wires underground in Baltimore, it was clearly recognized that the way to do so was by a municipal subway. And here the idea of municipal profit on the transaction was eliminated, the plan being simply to charge enough rental to pay interest and sinking-fund, and thus give the use of the subways to the private companies for cost, simply and solely to get the streets clear of obstructions.

Not charging for the franchise value would probably be the result of the plan proposed as an alternative to municipal ownership and operation; that is, public ownership with private

operation. This method would be much preferable to private ownership, because the franchise itself would be reserved, and some day might be utilized without extra cost by the city itself.

Again, in the matter of sewerage in Baltimore, only once was it seriously proposed to farm out the system to a private company. The proposition to grant a franchise was coupled with fair promises of the benevolence the company would show to the city—how it would relieve the city from an enormous municipal debt and charge fair and reasonable rates; but immediately, with loud and universal public condemnation, the proposal was buried out of sight. Its opponents called it a scheme for "graft," a "gigantic steal," etc. Why graft? Why a steal? What was there to steal except the franchise value, which, of course, would have been abundantly capitalized? A distinct popular recognition of the point I am trying to make.

The margin of efficiency saved by the reservation of the franchise value, coupled with the lower interest rate on municipal, as compared with private, loans (with the promoters' and bankers' commissions on the latter), must be more than used up by higher wages, political debauchery and extravagance before public operation can become more expensive than private ownership.

Besides, there is no inherent reason why the mob of voters should not obtain as good and successful management as the mob of stockholders.

Again, the increment of franchise value to come from future increase of population is going to be enormous. We all believe in great increases in population in the future in and about our great cities. The franchise or right to serve a city of a million souls will be worth more than twice as much as the franchise to serve half a million. If we buy now from the private owners, including present franchise value, we will save all future increment with every prospect that the proportionate improvement in the governmental service will be greater every year in the line of increased efficiency. The increase, up to the present time, in the value of public-service capitalizations, has been almost beyond the dreams of avarice. From the moment of municipalization, this will become the property of the people, and accrue to them as reduced rates, better service or lowered tax rates.

No one now, conservative or radical, stands for unregulated monoply, while all thinkers and writers on the subject recognize public services as necessary and natural monopolies; and it is generally admitted that existing political evils are primarily caused by the presence in politics of the public-service corporations, and this admission involves the recognition of the necessity for some remedy. Certain opponents of municipal ownership propose "regulation" and "punishment for the wrongdoer." Now, in the first place, "regulation" means what looks very like a political impossibility. It means that the servant must regulate his master; that the party man, who has been elected as such, must put himself outside the breastworks of the organization by regulating the party's best and ever-faithful friend, the campaign contributor. This is not in human nature. This is why you will so often find the business man in office, honest as the day is long in his private business, but in office particularly careful to carry out his reforms in places where they do not conflict with big business privilege.

The advocates of regulation overlook one point, which, in my opinion, is vital. Regulation of rates or service is always resisted by the owners; and the advocate of regulation is compelled to put himself in constant antagonism with his business associates and social friends, who happen to be owners or managers of the particular service involved. To do this, to interfere with the business interests of those with whom one enjoys the most pleasant personal relations in one's daily walk, is a disagreeable and often dangerous thing for any man to do.

Yet the public official must needs do this, over a long and aggravating period of years, throughout his whole political existence, if he is to carry out a policy of regulation, or even attempt to compel the public-service corporations to obey their legal obligations. A battle for municipal ownership would be a comparatively short conflict, and there would be nothing to disturb personal relations, as soon as it became an accomplished fact.

This social and business association, combined with the fear of wrath to come in the shape of a contribution which will set their party machine against them, explains the failure of executive officers, otherwise honest and efficient, to take up, on their own initiative, cases of plain violation of public obligations on the part of these companies. This is what the organizations

and the companies mean by a "safe" man. Every nomination for important office is scrutinized from their own point of view by the representatives of these vested interests. Fagan, La Follette, and Johnson are not considered "safe," because they have touched the vital pocket-nerve. To obtain their renominations, they have each been compelled to capture their party, over the heads of its old organization, and practically to construct a new party of their own, and fight the combined power of the public-service corporations, which immediately rallied around the banner of the opposing party. The fact that they have succeeded shows that the people have learned to protect their government, and indicates strongly that they will be responsive to the necessities which municipal ownership brings of a more certain tenure of office in the public service and a greater governmental efficiency.

In every case where "regulation" has seriously been attempted, long and tedious litigation has been the result. Witness Roosevelt's Ford Law which, though passed in 1899, has never yet been enforced. Witness La Follette's rate legislation and Johnson's efforts for three-cent fares. If the litigation is successful, it involves the election of successive administrations, who are firm believers in the same policy, to keep the "regulation" going; and this, in turn, means a continuous political warfare, fraught with all these necessary antagonisms and involving a steady incentive to political corruption, without the definite results municipal ownership would secure.

Municipal ownership is only beginning to be tried in this country, although a start is being made in the electric-lighting service, some 800 plants, large and small, having been established, according to Mr. McCarthy, the legislative statistician of Wisconsin. But time enough has not rolled by to make history and show success or failure. Private ownership, on the other hand, has existed for a long time, and yet no important instance can be cited of successful "regulation" in any city. In the cities where it has been attempted, like Chicago, Cleveland, New York and Detroit, the sentiment for municipal ownership is strongest. It is not too much to say that, for political reasons, "regulation" either has not been attempted, or where attempted has failed.

If we are to measure efficiency by something more than dollars and cents, if elements like comfort and convenience and conscience and political freedom are to count for anything,

we must by cooperation, through the medium of our city governments, furnish the people with those necessities which, from the nature of the situation, ordinary competitive business cannot furnish, and as to which they must either be protected by government or taxed to make a watered franchise pay.

These are real functions of government according to the true doctrine of *"laissez-faire."* The philosophers of that school did not hesitate to provide a police force to prevent private exploitation, to establish a tax-collecting department instead of farming out the taxing power. But we have handed over the public property in the streets to private corporations, and given them a power monopolistic in its nature, to furnish public necessities; and within limits the owners have the power to charge or tax the people for this service.

We who believe in public ownership believe in radical reform as we believe in democracy. We want to make democracy free and able to handle the big propositions for popular benefit, as well as the small ones. We hold that, if we merely get good men in office who will look after and trample upon the small grafters, we accomplish something; but to give real justice to the people, we must stop the big leaks involving millions, as well as the small leaks involving hundreds and thousands. To fight the "boss" successfully, you must cut off his supplies, his campaign contributions. You must take away the special privilege of the man behind the "boss," the public-utility captain, and turn him from a natural enemy of government into an ordinary unprivileged citizen and the friend of progress.

MUNICIPAL OWNERSHIP IN THE UNITED STATES[1]

Municipal ownership to many people means a peculiarity of German "kultur" (or British human nature) which is as foreign to our American life as the invasion of neutral territory (or the curse of imperialism).

"Of course," they will say, "it may work well in Germany, where the individual is just a cog in the machinery of state; but we Americans won't stand for any such paternalism."

[1] From article by Evans Clark. Intercollegiate Socialist. 5: Sect. 2, 30p. October, November, 1916. Also reprinted, 10c. Intercollegiate Socialist Society, New York.

As a matter of fact, in these United States there are literally thousands of cities, towns and villages practising this form of collectivism every day in the year.

Out of 195 cities with a population of 30,000 people, 150 own and operate their own water-supply business. There are no less than 1,455 publicly owned and operated electric light and power plants, 125 gas works, some 20 asphalt paving plants, not to mention hundreds of isolated examples of municipally owned and operated markets, docks, garages, heating plants, public halls, cemeteries, ferries and street railways. There is even a case on record of a municipal organ, a liquor agency and a newspaper.

This supplement is an attempt to show that municipal ownership is not peculiar to the kultur of any foreign nationality, but has taken firm root in our American institutions, to point out the causes of this growth, and to discover its implications for the future of our American life.

I might add at this point that none of the facts that garnish this recital have been gleaned from a partisan source. Certain privately owned and vitally interested bodies like the American Telephone and Telegraph Company and the Municipal Ownership Publishing Company are conducting a most insidious "educational" campaign against public ownership in all its forms. The telephone company has gone so far as to run a loose-leaf digest of all the facts and arguments against public ownership, which is distributed widely in university and public libraries. On the other hand, certain congressmen who favor the nationalization of telephones and armor plate plants are continually quoting "figures" to prove the opposite. No such flimsy material has been used in the construction of this supplement, nor should be used by anyone who wants to build on solid ground.

There is a mass of uncollected and undigested information of non-partisan reliability in this field. A glance at any bibliography will reveal a long list of national and city government publications bearing on the subject; the Civic Federation's classic report is a mine of information; the "learned societies" in economics and political science have published investigations; the Municipal Journal, an impartial periodical, has made exhaustive studies of the situation, and there are gas and electrical directories that are invaluable reference works for the student

of municipal ownership. It is on these sources that this article is based.

All this data raises some vital and specific problems for the student of contemporary life. First in importance, perhaps, is the record of the growth and distribution of municipal ownership in different fields of activity. How many publicly owned plants are there? Is public ownership growing? Has it grown faster in one industry than another? What situations have been favorable and what unfavorable to its development? Then, too, of the utmost interest for one who must take sides (and who cannot?) are all those facts which bear on the question of success in operation of private as compared with public plants. Has municipal ownership paid? Has it lowered prices to the consumer? Has it made for shorter working hours, higher wages and recognition of unions? And finally has it made for a cleaner and more public-spirited social and political life in cities where it has been tried?

The first of these problems is easy to solve. We have very definite and reliable figures on the extent, distribution and growth of the movement in the United States.

I. Extent of Municipal Ownership

WATER WORKS

By far the greatest advances have been made in the field of water supply. In 1800 there were 16 water works in the country. Of these 15 were in private hands—all but one of which (Morristown), it is interesting to note, have since been taken over by the public. In 1899 there were 3,326 water works, of which 63 per cent (1,787) were municipally owned and operated. Of the 38 cities with a population of over 100,000 there were in 1900 no less than 30 which owned and operated their water supply business. The eight privately owned plants were in San Francisco, New Orleans, Omaha, Indianapolis, St. Joseph, Scranton, Paterson and New Haven. Of these eight, two (New Orleans and Omaha) have since been taken over by the public. In 1912 there were 56 cities with a population of 100,000 and over. Of these 48 owned and operated their water works. The eight still in private hands were at that time: Indianapolis, Oakland, New Haven, Scranton, Paterson, Bridgeport and San Antonio. In the same year there were

195 cities showing more than a 30,000 population, and among them but 45 private plants. The latest figures available show (1915) 204 cities of over 30,000 population and but 49 private plants. Of these 7 are in cities of between 100,000 and 300,000 population, 16 in those of 50,000 to 100,000 and 26 in cities of 30,000 to 50,000. *No changes in ownership from public to private hands have been noted,* but an increasing number of plants have gone from private to public ownership; in the years 1880 to 1889 there were 7 such transfers; 1890 to 1899, 14; 1900 to 1909 16, and in the five years from 1910 to 1915 there were already 11.

These figures carry with them the most important implications. In the first place it is clear that the big water works are in the hands of the public. It is only in the small towns that the private water company has struck root at all. And this is of special significance. In every other public utility just the opposite is true—the number of private companies varies directly with the city's size. Water works statistics, at least, give the lie to the assertion that public ownership is only adapted to small undertakings, and also to the equally tiresome claim that public control lacks initiative. Witness, for instance, the great engineering triumph that New York has won in the Catskill Water Supply. Public ownership has undoubtedly conquered the field of water service.

More important still is the problem of why the collectivist theory has proved more successful in water supply than in gas and electricity. The three utilities—as well as the telephone business—are essentially alike. They all involve the house-to-house service of what are coming to be primary necessities. They must use the public highways for their systems of supply. And the commodities can be obtained only by the performance of large scale feats of business and engineering skill. The widely different amounts of public ownership in these fields is both interesting and enlightening. A consideration of these other utilities will give us some further clues in the solution of the problem they raise.

ELECTRIC LIGHT AND POWER

In the production of electric light and power cities have gone much further than is generally known. In 1902 there were 3,620 electric plants in the United States. Of these 22

per cent, (815) were owned and operated by municipalities. In 1907 there were 4,714 plants, 27 per cent (1,252) of which were publicly owned. In 1912, 30 per cent (1,562) of the plants were city-owned out of a total of 5,221. In other words, municipal ownership increased between 1902 and 1907, 54 per cent, and between 1907 and 1912 24 per cent, while during the same periods private ownership increased only 23 per cent, and 6 per cent respectively.

But with these figures must go others if we are to see the situation four square. It is clear that municipal ownership has made far greater headway than private ownership in number of plants established, but in terms of total output the facts are astonishingly different. The output of municipal plants per kilowatt hour in 1912 was 10,436,276, that of private plants 537,526,730. That is: although the number of municipal plants was 30 per cent of the total, their output was only 5 per cent of the total output for the year. The rate of growth of plants put into terms of output shows a similar discrepancy. From 1902 to 1912 municipal plants have increased their output 136 per cent, while private plants have gained 238 per cent.

What has happened is this. While a far greater number of new plants have been built under public ownership, the private ones have been decidedly larger.

This looks as if the private promoter had captured the big prizes in the electrical field. Other figures bear this out. In 1902 no less than 82 per cent of the municipal electric light plants were in cities of less than 5,000 population, while only 73 per cent of private plants were so located. In 1904 there were but 4 municipal plants in the 39 cities of over 100,000 population. And in 1912 there were only 7 in the 56 cities of the same population. To quote the Civic Federation Report: "It is only in cities below 30,000 that municipal (electric) undertakings are found." The only cities of over 100,000 population to-day which own and operate their electric light systems are: Chicago, Cleveland, Cincinnati, Los Angeles, Seattle, Columbus and Birmingham—and of these none has a monopoly of the field, while some do not supply private customers.

These figures characterize municipal ownership in the electric field—a fairly high degree of development, but one almost exclusively confined to the smaller cities—precisely the opposite, as we have seen, from that in the field of water supply.

GAS

A survey of the gas business reveals a somewhat similar situation. In 1899 there were in the United States 965 gas plants. Of these 14 (1.5 per cent) were municipally owned and operated. In 1914 there were 2,109, of which 125 (6 per cent) were socialized. The number of municipal plants increased in this period 11 per cent, while the private plants increased as much as 46 per cent. In 1912 of over 100 municipal plants only one (Richmond) was located in any city of over 100,000 population.

In the gas business, therefore, as in the electric, the private companies have captured the big plants. But in the case of gas, public ownership, even in the smaller towns, has not made anything like the headway that it has in the field of electricity and water.

AN INTERPRETATION

We have now enough data at our disposal to frame a tentative answer to the question: why has municipal ownership triumphed both in number and size of plants in the water business, while it has never even been attempted in the telephone business; has achieved but moderate prominence in gas, and in electricity, in spite of a remarkable increase, has failed to enter the biggest cities?

No one has, to my knowledge, however, gathered sufficient material of facts and figures to build an answer that will stand completely on its own foundation. Whatever theory we hold must inevitably be buttressed by our personal desires and prejudices—a poor prop at best.

But I should like to suggest a tentative hypothesis: We, the people of this country, are accustomed to allow a small group of investors to reap huge personal profits from bartering our indispensable public necessities. It is only when our bodily security is threatened that we call a halt. And to this hypothesis there is a sufficient corollary: when the public need carries with it no large promise of profit, private capital steers clear and public ownership is Hobson's choice.

We have municipal ownership of our police and fire protection because we know enough not to entrust the safety of ourselves and our family silver to seekers after profit. We have learned to take it for granted that the supply of this

public utility is a "governmental function," as we put it: that it would be "contrary to the public interest" for it to be the subject of stock-jobbing commercialism. Such a state of things would endanger our bodily safety.

Municipal ownership has dominated the water business primarily for the same reason. We will entrust our light, heat and transportation, but not our life, to the mercies of a money-making concern—to an organization whose interest in our welfare is divided by dividends. Water is one of the chief carriers of disease and has consequently become gradually bound up in our minds with the "public function" of health and sanitation. Political and social sagacity has developed among us at least to this extent: we are beginning to realize that our health (like our security from thieves and fire) is not a matter for the haggling, money-grabbing and stock watering of a business transaction. Public utilities that bear directly on our health are now being looked upon as legitimate fields for government interference and even ownership.

If we only washed in water and did not drink it, maybe public ownership would have made comparatively little progress in this field.

It is not that profits are small in the water supply business. They are as alluring as in any other public utility.

It is not that the water business is different in its essentials from gas, electricity or telephone service. All three present the same magnitude of engineering and business problems. The claim that New York could not possibly own and operate so large an undertaking as its electrical supply has been annihilated by its Board of Water Supply.

Nor is it any inherent simplicity in the business—nor any cryptic ability of government to handle water but not gas.

The reason is far simpler. The one greatest cause that has induced the conservative American public to swallow this extraordinary dose of collectivism is the germ they might drink at their breakfast table.

And here is a straw of proof to show whence and whither blow the winds of public sentiment. Out of five cities investigated by the Civic Federation Committee, the three whose water supply was a public service (Syracuse, Cleveland and Chicago) showed a typhoid death rate in 1905 of 13, 17 and 17 respectively. The two whose water supply was a private opportunity for

gain (New Haven and Indianapolis) showed a rate of 47 and 32 respectively. Out of the 38 largest cities in the United States, Syracuse ranked ninth in lowness of the typhoid death rate, Chicago eighth, and Cleveland sixth; while New Haven ranked twenty-ninth, and Indianapolis twenty-third.

The telephone business has remained entirely in private hands, chiefly, I should say, because telephones have not threatened our bodily security. But it is interesting to note that with the development of the business the lack of a telephone is becoming a menace to safety. We rush to the telephone to call the doctor, the policeman, the fire department,—our neighbor who can give us help in a crisis,—our relative across the continent, if need be. The faster telephones are installed the more urgent becomes our need for them. They increase their own demand, and the ratio of increase outruns the demand. And with this growing necessity of the telephone has come—as we might expect—a growing demand for public ownership. The monopolization of this field, however, by a few interstate companies and the necessity for extra-municipal connections has turned the agitation towards naturalization rather than municipal ownership. The same sort of interstate monopolization of water power is going on at the present time—and consequently of electric current for light and power. Sooner or later the agitation here will take a similar turn from municipalization to state or federal ownership. At the present time this development is one of the greatest barriers to city-owned electric plants.

The facts of the gas and electric light business tend to prove both our hypothesis and its corollary. The profits are great in the large-scale supply of both these necessities, and the bodily security of the consumer is entirely free from danger. The 5,000,000 people of the city of New York run no risk when they turn on the Edison current or the Consolidated gas. This situation breeds, as always, an enormous progeny of privately owned plants. We have seen that in practically all the large cities the private investor has found and cultivated (often, as we know, with much watering) a fertile field in gas and electricity. The rapid rise of municipal electric plants in small cities, however, needs further explanation. It may be accounted for by the use of our corollary. The less profit an investor can reap from a public necessity the less likely he is

to be "interested." The big prizes lie in the big cities. The people of Centreville may need light just as urgently as those of Chicago. But business is business—not public service. Interest to the investor varies directly with the distribution, not the intensity, of necessity. Yet, even though he pass Centreville by on the other side, its people must still have light. And what is the result? An inevitable and spontaneous movement, supported by the proprietor of the leading store himself, in favor of a Centreville municipal light plant. One more triumph for public ownership. Collectivism in these cases is an epitaph on the monumental failure of private ownership in the face of very definite and widespread social need.

STREET RAILWAYS, FERRIES AND DOCKS

In the case of street railways, ferries and docks we have additional proof of our theory. These are lines of activity usually extremely lucrative and necessary, but not directly a menace to the public health. We should expect to find private ownership rampant. The facts bear us out. In the whole of the United States only three cities (San Francisco, Seattle and Munroe, La.) own and operate portions of their street railway systems; only two (New York and Boston) own and operate ferries, and but two (New Orleans and San Francisco) any large per cent of their water front. Billions have been made out of the human necessity for transportation in cities and untold commercial advantages have grown out of bartering the need for landing places and means of ferriage.

An interesting exception to this rule, however, occurs in the case of the Staten Island Ferry in New York City, which was an utter financial failure in private hands and was taken over by the city to prevent the interruption of a most important service. And another case comes to hand in the Seattle Street Railway, which was built by a certain real estate concern to boom its suburban properties. The boom failed to materialize, the trolley failed to pay and the company unloaded it on the city as a gift.

But these exceptions only go to prove the general hypothesis: failure of private ownership plus public need equals municipal ownership. In practically every other case these public utilities have been large revenue producers, either through water or through legitimate operation, without threatening health, and

have consequently been gobbled up everywhere by the private promoter primarily for his own aggrandizement.

The publicity owned water front of New Orleans, with its municipal terminal railway and the water front development of San Francisco, are two exceptional and remarkable examples to show the public advantages to be gained from resistance to this trading on people's necessities—advantages, it might be added, which almost every German and many English cities have long since recognized and acted upon.

II. Success of Municipal Ownership

The first question of the business men to any proposal is: Has it been tried? As we have seen there are, for municipal ownership, thousands of answers in the affirmative.

But he will always ask a second: Has it succeeded? And to this the answers are myriad and varied: affirmative, negative and non-committal. There is no one answer that will fit all the cases. This the most cursory investigation will reveal. All the careful student can say about this phase of the problem is: it all depends. A municipal plant will succeed if it is well run and fail if it is not. And in this respect it is exactly like a private one. It is as absurd for the Municipal Ownership Publishing Company to print pamphlets showing the failure of certain specified city-owned plants as proof of the failure of municipal ownership in general as it would be for me to say that the private business is a failure because, as is often claimed, 94 per cent of men in business fail. Of course it would be most useful to know which form of ownership tended to the greatest average success and failure. That would be pretty substantial evidence of superiority or inferiority. But that would require a record of every privately run public utility and every city-owned plant in the country extending over a long period of years in all its operating and financial affairs. Of course, no one has ever, or will ever, make such an investigation. And even after it had been made it would have to be interpreted in the light of all the varying circumstances which surround each and every case: a human impossibility.

What concerns us here is whether there have been cases of successful operation of publicly owned utilities and whether, where investigations of comparative operating records have been made, they have been favorable to the socialized plants.

Then, too, it is necessary to determine just what "success" in any instance means. It is clearly not alone a matter of the balance sheet, as most business men would have us think. We could hardly expect them to adopt other standards—particularly in regard to undertakings which they naturally consider their own special field. The business man is compelled by the nature of his calling to adopt the standard of surplus as the highest good in most of his active life,—the habit continues in his moments of political and social discussion. Business is run for the investor. And the investor lends his money for dividends and interest, not for amusement or charity,—he spends elsewhere for those. But we are considering this problem from the point of view of all classes, not one. We are compelled to consider the standard of the working man and the consumer, not to mention that of the rather nebulous and inarticulate "public." Success for us, then, will include other considerations as well: price to the consumer, conditions of labor, and effect on the political and social life of the community.

THE BALANCE SHEET

But out of deference to our most influential class to-day let us take the balance sheet first. Are municipal plants successful financially?

The United States Census Bureau has compiled total receipt and expenditure figures for all public utility services owned and operated by cities of a population of 30,000 and over. This will give us profit and loss figures which will indicate at least the broad outlines of an answer. The 150 water supply plants in these cities show a total profit of $39,476,969 for the year 1912. The 19 electric plants show a balance of $2,076,141 and the gas works $417,970. The markets (112) netted $1,063,679, docks (53) $3,492,910 and pipe subways (7) $164,079. The New Orleans belt railway shows a profit of $5,987 and the Schenectady stores $383. The following undertakings, however, show a loss for the same year: 76 cemeteries ($140,571), 21 public halls ($103,900), 2 ferries ($133,635), 5 toll bridges ($167,841), 9 lunch rooms ($42,740), 2 city farms ($416,125), and 1 newspaper ($11,194).

Now these figures are not as favorable to public ownership as they appear, for they do not include the tax payments, interest or depreciation reserves, capital charges which would

enter the debit side of a private company's balance sheet. It is only fair, however, in comparing these figures with private companies that no deduction from the profits of a public plant be made for interest charges—unless there have been such specifically. The system of public ownership eliminates this leakage from the pockets of consumers and employees. We must give credit where credit is due. It also eliminates the cost of tax collecting which falls on the public in cases of private ownership.

But if these figures do not give us a basis of reliable comparison with private plants they can give us one as between the differing forms of municipal enterprise. The supply of water is the most profitable, as we might expect. The public has given municipal ownership a real chance here by forbidding the private investor to enter the field. The average profit of water works was $263,179 from the 1912 figures. Electric light plants averaged $109,270: less than the water works by as much as private capital has been allowed to grab a lucrative field. Markets show a big drop to $94,970, while docks average $65,904 and pipe subways $23,439. On the other hand, the loss is in those undertakings where the promise of gain has been too small to attract the private investor. We cannot, of course, as do most opponents of public ownership, hold these losses up as evidence of incompetence. By staying out of these fields the private investor has tacitly admitted his own likelihood of failure. When the city is forced to step boldly where the private company fears to tread we must expect an occasional fall.

Some other surveys have been made which help us further. The United States government has made an investigation of the income and expenses (including free service) of all the public and private electric light and power plants in the country in 1912. Only the totals are given. But they are most interesting, and, as they include deductions on estimated payments for rent, taxes, interest and depreciation in the case of municipal plants, are a reliable basis of comparison with private plants. The total income of private plants was $278,896,610 and that of municipal plants $23,218,989. The total expenses were $217,502,313 and $16,917,165 respectively. Although the municipal plants show a decided net income, it is not, however, proportionately as great as private plants in relation to their num-

bers, the percentage of municipal plants to total plants in numbers being 30 per cent and in income 8 per cent. But, then, we must remember that private companies have secured the most lucrative business in this field, and the publicly owned company is not operated primarily for profit. The figures are, therefore, most favorable to municipal ownership.

The success of municipal ownership in a handicapped race is shown by the plant averages from the figures above. These show that the average private plant returned an income for 1912 of $76,222, while the average public plant gained for the public treasury no less than $14,865 in the same year.

There are some cost of production figures also which, though incidental, are of interest as bearing on the total profit or loss. From a survey of 89 private and 3 public gas plants in 1899 a cost of production per 1,000 cubic feet of $1.19 is shown for private plants and 87 cents for the city-owned works. These figures include for the latter the necessary estimated deductions of tax and interest charges. A comparison of 1,539 private and 1,787 municipal water plants by the same authority shows a cost per 1,000 gallons of $.0812 for private plants and $.0641 for municipal plants.

Some cost of construction figures are at hand also which incidentally go to refute the general conception that public works are many times overpaid for in graft. In 1902 the capitalization of 2,805 private electric light and power plants was $271.51 per 1,000 kilowatt hours. The cost of construction of 815 municipal plants in the same year was $111.89. From this Professor E. W. Bemis deduces that the cost of municipal plants is but 41 per cent of that of private. There are some other recent figures which in general support this conclusion. It has been computed that of 19 private and 118 public water supply systems investigated by the Municipal Journal the average cost of construction per 1,000,000 gallons yearly consumption of private plants was $1,107, while that of municipal plants was $804. The same investigation shows a cost of maintenance, on the same basis, of $60.80 against private plants to $34.25 against municipal plants. Other figures in the same survey for smaller plants show a cost both of construction and maintenance slightly in favor of the private plants; but the number investigated was smaller and the results therefore slightly less reliable.

From the United States survey of Electric Light and Power Plants of 1912 we find the same general situation. The average cost per kilowatt capacity for construction of all the private plants in the country was $440, while that of municipal plants was only $209. All indications, therefore, compel us to conclude that public plants have on the whole cost less than private ones.

All the data we have at hand tends to the conclusion that in the fields of water, gas and electricity, at least, municipally owned plants have, on the whole, been financially successful. Especially as financial success for a public plant is not measured by the size of the dividend and the payment of interest, but by a mere return of a surplus over all expenditures, including what the city loses in taxes and the rent from the public property involved. As a measure of the stamp of public approval which follows success, it is interesting to note that in the great period of electrical development preceding the year 1902 there were some 170 plants transferred from private to public ownership, while in the same period only 13 went from public into private hands.

The contrary conclusion, however, is true for most of the other undertakings: ferries, halls, cemeteries, farms and so on. All these have proved financially unprofitable as municipal plants. Markets probably are on the whole slightly below the line of financial success.

So much for the generalizations drawn from extended surveys. It might be well also to give some specific instances of cases of financial success in municipal plants. The following are some of the most notable:

Plant.	City	Net Earnings.	Date.
Water	Syracuse	$31,515.15	1905
Water	Cleveland	61,185.62	1905
Water	Chicago	1,681,512.14	1905
Electric	Seattle	242,257.68	1913
Electric	Pasadena	29,360.00	1913
Electric	Riverside	26,262.00	1913
Electric	So. Norwalk	24.740.00	1913
Electric	Cleveland	32,737.00	1915
Electric	Marquette	40,000.00	1913
Street Railways	San Francisco	45,304.47	1913

In considering the figures so often adduced to show the financial failure of municipal ownership, it is important to find out the circumstances surrounding each case. It is obvious that where municipal ownership in any instance has been forced on a community by a combination of public need and a refusal

of private capital to invest, it would be a mistake to condemn the public plant for the inevitable failure. A good illustration of this is the Staten Island Ferry in New York. The city, as I have stated, was forced to take over the business through financial failure of a private company. But this case is used time and again to prove the failure of public ownership on the absurd ground that the operation returned the city a deficit! As a matter of fact, this ferry can now be used to prove just the opposite. The city has at last accomplished what the private company, with a far inferior service, could not do, and returned to the city in 1915 a profit of $152,721.80—not to mention the gain in increased taxes that have flowed from the development of property.

COST TO CONSUMER

There have been several studies made of the second element in our standard of success: price of the commodity to the consumer. But the latest government investigations have omitted this item, for some reason, from their reports.

The first government study, in 1899, gives some very definite figures: the result of an investigation of hundreds of plants in each of the fields of water, gas and electricity.

The average price per 1,000 gallons of water sold was $.1527 for private plants and $.1110 for municipal.

The figures for gas per 1,000 cubic feet are: (A) Plants producing less than 5,000,000 cubic feet: private (341 reporting), $1.56; municipal (11 reporting), $1.51. (B) Plants producing over 5,000,000 cubic feet: private (261 reporting), $1.40; municipal (8 reporting), $1.11.

Those for electricity per kilowatt hour are: (A) Arc lamps: (1) to private users: private plants, $.1085; municipal, $.0801; (2) to public (city): private plants, $.0746; municipal, $.0425. (B) Incandescent lamps: to private users: private plants $.1548; municipal $.1058.

The Civic Federation Committee's investigations in 1906 show the following figures in water rates: (A) Per 2,000,000 gals. a year: (1) private plants: New Haven 10c, Indianapolis 9¼c; (2) public plants: Syracuse 6 2/3c, Cleveland 5⅓c and Chicago 7c (B) Per 12,000,000 a year: (1) private plants: New Haven 10c, Indianapolis 6.2 c; public plants: Syracuse 4 2/3c, Cleveland 5⅓c, and Chicago 7c.

The committee also reported on gas rates before and after municipalization in Duluth, Philadelphia and Wheeling. They show most decided decreases per 1,000 feet as follows: $1.90 to $.75, $1.40 to $.89, and $2.52 to $.75 respectively. The figures in electrical service are somewhat similar. In Detroit the private company offered it to the city at $134.10 per lamp per year for three years. The city built its own plant, operated it at cost, and (allowing for deductions for interest, etc.), found the expense only $50.00 per lamp per year. In Chicago the municipal plant serves the city at $83.67 per lamp per year, while the Edison Company had offered the same service at $90.00. In Pasadena the Southern California and Edison companies were selling electric light at 12½c in 1908. A municipal plant was put into operation that year and sold the same service for 8c. This was later reduced to 7c when the private companies reduced their price to 5c. And when the city company reduced to 5 and 3c the private company came down to 4c. In 1913 the private companies lost money on account of the cut rates, but being state-wide concerns made up the deficit out of innocent third part localities. In the same year the surplus of the municipal plant was $30,000. The Pasadena rates are now lower than those of any other plant in the country except Cleveland—another municipal undertaking.

The Cleveland municipal lighting plant is a standing refutation of all opponents of public ownership—one of the best examples of the complete success of municipal trading in the world. In 1906 the city acquired a small plant by the annexation of the village of South Brooklyn. In 1910 another plant was added by a similar extension of territory, but in 1911 the people voted a bond issue of $2,000,000 to build a new producing station that would supplant the other two. This latter went into operation July 20th, 1914. At the end of 1912 the old plants had turned over a profit of $46,498, after deducting depreciation and interest charges from net earnings of $61,900; and in 1913 the profit was $49,899. Interest on bonds is not generally figured as an operating expense until after a year or two of operation, but during 1915 the new plant, only a year old, paid off all the interest on bonds from operating revenue, paid to the sinking fund commission $68,062 and repaid the water works department $53,000. The profit in 1914 was $32,737 and for the first six months of 1915, $6,789. In 1906 when

the first plant was taken over the rate charged to the city by the private Cleveland Electric Illuminating Company was $69.72 per lamp per year. This has been gradually reduced by competition with the city plant to $49.80 per year. The average sale price for the city plant in 1912 was $.0302 per k. w. l., while the C. E. I's average price was $.065 for the same service. The city's average sale figure was brought as low as $.0185 in 1915, while in the same year the C. E. I. reduced their rates to an average of $.0466. It has been figured out that the city plant has brought a saving to the people of Cleveland of $975,133 a year. That they appreciate their own good sense is indicated by the number of customers. In 1914 there were 5,300. There are now 16,487.

This general trend of figures is supported by a survey of 100 municipal and 16 private plants conducted by the Municipal Journal in 1913. This showed for private plants an average maximum price of 12.87c per kilowatt hour, as against 11.71c for the municipal plant. The average minimum figures, however, favor the private plants: 5.4c as against 6.3c.

An exhaustive survey of the relative costs to cities of paving from private and municipal asphalt plants has been made which shows the same results: distinctly favorable to public ownership. The figures are based on the relative cost to the District of Columbia, excluding the cost of construction ($85,000) of a city-owned plant and were obtained after a thoroughgoing investigation of all the municipal plants in the United States. Pavement per square yard, it was estimated, would cost the District $1.7142 from private plants and $1.4028 from a city plant. The figures for surface per square yard were: private $.6550, public $.4609; and on minor repair work per cubic foot: private $.5840 and public $.5003.

Other factors being equal, we should expect to find the price to the consumer less in public than in private plants, for the simple reason that the concern can be run at cost without the additional burden of interest and dividend payments—not to mention tax assessments and rent, figures which, strictly speaking, should not go to the credit of a public plant, however. This expectation the figures that are at hand bear out with exceptional uniformity. Municipal ownership, we are forced to conclude, is better for the consumer in this respect. It must be admitted, though, that recent surveys have been few and

not extensive, and that this conclusion can hardly yet be considered final.

CONDITIONS OF LABOR

Information regarding the third element in our problem, working conditions, is much less available than that as to financial success and cost to consumer. There are, however, several collections of data that will give us a hint of the real situation —at least in the matter of salaries and wages. The earliest available figures show the typical condition: lower salaries but higher wages in public plants.

In 1899 the average salaries (i.e., wages to superintendents, managers, etc.) in 375 private water companies per 1,000,000 gallons were $14.37, while those in 659 municipal plants were $7.84. The wages were $13.07 and $15.18 respectively. The returns from gas companies showed that in all but the smallest plants salaries were higher in private works, while in four out of seven groups (rated by capacity) wages were lower. The figures in the case of electrical undertakings showed the same tendency.

The Civic Federation Report gives an interesting table of comparative minimum wages and hours of labor for common labor in private and public plants:

	Private		Municipal	
City.	Hours.	Wages.	Hours.	Wages.
Syracuse	10	$1.50	8	$1.50
Detroit	9	1.80	8	1.75
Allegheny	10	1.75	8	2.75
Wheeling	10	1.85	8–9	1.85
Cleveland	10	1.75	8	1.76
Indianapolis	10	1.50	8	1.60
Chicago	10	1.75	8	2.00
New Haven	9	1.50	8	1.50
Richmond	9	1.20	9	2.00
Atlanta	10	1.00	10	1.00

This again supports the general rule that wages are higher in municipal plants and adds the feature of shorter hours—also the usual thing.

There are, however, other figures of a later date, but from only one industry, which minimize the difference in wages to some extent—although they add evidence for the salary variation between private and public plants. The average yearly salary for superintendents and managers in all private electric light and power plants in 1912 was $1,487.21, while that in municipal plants was only $953.57. The average wage, how-

ever, in private plants was also higher: $699.15, as against $669.68. But this latter calculation does not take into consideration the usual difference in hours of labor in favor of municipal plants. Were the figures based on wage per working hour they would, in all probability, swing the other way.

The only data at hand showing the relative attitude towards unionization of employees is meagre indeed, but favorable to public operation.

In 1906-7, of the municipal plants studied by the Civic Federation Committee, three were favorable (Cleveland, Detroit and Chicago) and three unfavorable (Allegheny, Syracuse and Wheeling) to labor organization. Of the private plants, all were distinctly hostile to the union idea. All the municipal plants, though, had adopted a minimum wage scale, while only a few private plants had done so, and all municipal plants (except South Norwalk) paid the prevailing union rate of wages.

As to other working conditions: cleanliness, safety of shops, and so on, there is practically no comparative information available. The Civic Federation Committee found the best conditions in the private Commonwealth Electric Company of Chicago, the Cleveland municipal water works and the privately run Philadelphia United Gas Improvement Company, while the worst conditions were in Richmond and Wheeling municipal gas works. "The best under one form of ownership," runs the report, "is equalled by the best under the other, and so on down to the worst."

Taken as a whole, then, the data on wages, hours and shop conditions is very unsatisfactory in amount and most of it is out of date. From what we have, however, taken in connection with common knowledge, we have reason to suspect that salaries are almost invariably higher in private plants, while wages (based on hours of labor) are lower; that city plants are more favorable to at least "benevolent organizations" among their employees, and that shop conditions vary all the way from one extreme to the other, according to locality and management on both sides.

If this analysis is correct, it is a standing challenge to every person interested in efficient management to agitate for higher salaries to executive officers in the public business.

EFFECT ON THE COMMUNITY

The last element in our problem is utterly impossible to solve in terms of facts and figures. It is vain to attempt to measure the relative amount of graft, corruption and public abuse in any given instances. We are thrown back on the generalizations of common knowledge and our own personal bias. The weight of evidence in my own mind, at least, is distinctly on the side of municipal ownership and operation.

The big graft in this country has been the inevitable result of the necessity of the private public utility company—as a very first esesntial in doing business—to obtain franchises and concessions from public legislative and administrative bodies.

Mr. Delos F. Wilcox, one of our foremost authorities on public utility problems, has handed down this dictum in the matter:

"A tragic story might be written of the temptations of public service companies. * * * Organized for profit and thereby adopting the ruling passion of a sordid age as the sole guiding motive of their activities, they have found themselves relieved of the restraints of conscience and personal feeling which often hold in check the greed of individual men. * * * Under these conditions, it is hardly surprising that public utility corporations have come to be regarded as one of the main instruments of municipal corruption and inefficiency."

Of course in cities where municipal ownership plants have been established it is futile even to speculate on how much corruption a private plant in the same situation might have bred. But it is self-evident that no city-owned gas or water works has ever intrigued with, and boldly or subtly bribed members of its city legislature—at least, for the privilege of doing business. We have heard of many instances of sinister dealings by private companies with the New York Public Service Commission. But who ever heard of the Board of Water Supply in such a role? Of course, the petty personal graft of patronage stands to increase in a city plant. But everyone who has even a passing acquaintance with a ward boss knows how many faithful constitutents he has "placed" with all the public utility corporations in the town. They render him this service as a matter of business policy: to gain concessions at the City Hall. Here is an eloquent example culled from that searching and authentic revelation of the boss, "Plunkett of Tammany Hall":

"11.00 A. M.—At home again. Found four men waiting for him. One had been discharged from the Metropolitan

Street Railway Company, and wanted his district leader to fix things. Another wanted a job on the road. The third sought a place on the subway, and the fourth, a plumber, was looking for work with the Consolidated Gas Company. The leader spent nearly three hours fixing things for the four men and succeeded in each case."

With the increase in civil service jurisdiction and a firm enforcement of the rules, no city administration could build up nearly as solid a political machine on patronage in municipal plants as has been done in cases like the one cited. As Plunkett sagely remarks: "I am for municipal ownership on one condition—that the civil service law be repealed. It's a grand idea—the city ownin' the railroads, the gas works and all that. Just see how many thousands of new places there would be for the workers in Tammany! Why, there would be almost enough to go around—if no civil service law stood in the way. My plan is this: first get rid of that infamous law, and then go ahead and by degrees get municipal ownership."

But given the civil service law, Plunkett and his ilk prefer things as they are. And this is a Q. E. D.

Again, it is impossible to weigh the increase in civic consciousness and public spirit which municipal plants have actually generated in this country. But examples like Pasadena and its electric light plant indicate a distinct gain. The fight there with the private plant lasted seven years and aroused an immense amount of public spirit in the community. The effect in another place might be infinitesimal. But it is impossible to charge any influence in the other direction to the public plant. And that is a good deal more than can be said of most private ones.

It is a fundamental law of political science, well proven by experience in Europe, that in the long run the more a city does for its citizens, the greater the civic consciousness and the less the graft, corruption and inefficiency in its public life. The people can "get at" the city-owned utility. Subway straphangers would tolerate far less discomfort from a city than a private management and far less inefficiency from a municipal subway than from a Department of Correction, for instance, with which they seldom deal. No greater physic could be administered to a body politic suffering from inefficiency in its city hall than a liberal dose of municipal ownership of some of the necessities of life.

MUNICIPAL OWNERSHIP—THE TESTIMONY OF FOREIGN EXPERIENCE[1]

Some years ago I was in the city of Berlin with a group of American business men and city officials, and after a luncheon given by the Burgomaster and his associates, there were a number of addresses, in which the burden of the American discussion was regret that our cities are not run in the business-like way of the German cities.

The American speakers were followed by a German Burgomaster, who said:

> Yes, we know American cities; we read your reports and we have heard American business men and Chambers of Commerce, and municipal officials say the same thing—that the trouble with the American cities is that they are not business-like. Your cities in America keep your sewers, which lose money; you keep your streets, which cost money; you keep your parks and other activities which cost money; but you give away your street railways, your gas companies, your electric lighting and your telephone companies, which make money. We in Germany think that is bad business. If any one of you gentlement as a banker gave away his good loans and only kept his bad loans, very soon he would be bankrupt.

He was followed by another German who said:

> Yes, that is our idea of municipal housekeeping, to keep the good with the bad.
>
> Twenty years ago the phrase in German cities was, "municipal housekeeping," but ideas have advanced in the last twenty years. We are now thinking of community living, of adjusting our cities to serve; to promote the comfort, the happiness and the well-being of the people in as many ways as possible, and in the majority of our activities it is not the money we make so much as the service we render.

Municipal ownership in Europe is largely the product of the last twenty years. It has become the universally or almost universally accepted policy in Great Britain, and only to a less extent is it the accepted policy in Germany and Switzerland, while to a somewhat lesser degree it is accepted in Italy, Austria Hungary and the Scandinavian countries.

The motives which have led to municipal ownership, or municipal trading as it is called in England, or municipal socialism as it is called in Germany, are several.

Possibly the most important motive is the feeling on the part of officials and intelligent public opinion, that the street railways, the gas and electric light and similar services, are just like the plumbing of a building: they must be inter-related into the city; they are a part of its structural frame work.

[1] From article by Frederic C. Howe, Commissioner of Immigration, New York City. Annals of the American Academy. 57: 194-208. January, 1915.

It is inadvisable to permit a half dozen warring companies to tear up the streets. It is wrong to permit street railways to determine where we shall extend our suburbs. It is inadvisable to permit private electric light plants to determine for us the rates of charges which we shall pay. The same is true of gas. I should say that the main reason underlying the movement for municipal ownership is the necessity of treating these agencies as integral, essential, fundamental parts of the city life.

Coupled with these was the controversy over rates and charges, and the feeling that they were too high. In addition, especially in England, and to a large extent in Germany, is the feeling that those monopolies earn large profits. They were relatively easily managed, and officials thought they ought to be owned and operated by the city, in order that the profits could be used for the relief of taxation. In many cases, also, the companies had conflicts with their employees. This led to irritation on the part of the public; to a feeling that the whole community ought not to be subject to disturbances, possibly to the stopping of public utilities by private conflict between capital and labor in the public streets.

In Great Britain, of the 50 largest cities in that country, 42 own the tramways, 44 the electricity supply, 41 the gas supply and 39 the water supply. Water supplies have been owned for many years, but the movement for municipal ownership, as such, began with the street railways.

Tramway Construction.—The street railways in Great Britain are constructed with much more permanence than they are in America. This is true of private as well as public undertakings. The girder groove rail is universally used. Tracks are heavily ballasted, while the overhead work is very substantial. Many of the towns have erected splendid shops, in which they both build and repair their cars. In consequence of the high standard of construction the capital outlay has been very heavy. In 1906 the cost of the Glasgow system was $93,305 per mile of single track, and in Liverpool $90,536. The London county council reports a cost of $106,033 per mile. It is believed that the construction cost in the British cities exceeds that of the average American city (outside of New York, Philadelphia, Boston, Chicago and Washington) by approximately 50 per cent.

Provision for Comfort.—Aside from the large investment in capital account, one is impressed with the many provisions for the comfort and convenience of the people, for the street railway is under constant supervision; it touches every citizen daily. It is more difficult to disguise bad service in street railway operation than in any other public utility. Serious accidents are of rare occurrence. They have been reduced to a minimum. The same solicitude is manifested in the care of the cars. They are kept fresh with paint and are washed daily. In Glasgow and many other cities all advertisements have been excluded.

Employees are courteous and are very jealous of their positions. They seem animated by a sense of service to the community, and because of the surveillance of the public they are of necessity considerate and courteous to the riders. Council committees seem to be on the alert to better conditions and to adopt new devices. There is keen rivally between different cities, each of which takes peculiar pride in its own enterprises, the equipment and the service rendered, as well as the annual balance sheet.

Zone System.—The zone system of fares is universal in Great Britain, as it was under private management. In a sense travel is metered, just as is gas, water and electricity. Upon each zone a fare of from 1 to 2 cents is collected, depending upon the length of the ride. There seems to be no protest whatever against this system, which leads to a very great stimulus of short haul riders.

Motives of Operation.—Four motives animate the councils in the operation of the street railways system. They are: first, the best possible service at the minimum cost; second, the relief of the taxpayers by more or less substantial contributions to the city budget; third, the widening of the boundaries of the city and the improvement of housing conditions by opening up the countryside; and fourth, the improvement in the condition of the employees.

Rate of Fare.—There is constant pressure to reduce the fares and extend the zones; but the prevailing tendency of councils is to utilize the surplus earnings for the reduction of the debt and the repayment of the loans. Despite this fact rates of fare are lower than under private management and very much lower than they are in the United States. For instance, in Glasgow there is a one-cent fare for short distances of about

half a mile, and in 1912, 43.98 per cent of the passengers paid but a one-cent fare. The number paying 2 cents formed 37.85 per cent of the total number, while the percentage paying 3 cents was 7.38. In that year over 80 per cent of all the passengers paid 2 cents or less.

The one-cent fare stimulates traffic in the center of the city and is a great convenience. It stimulates travel when traffic is light. It also enables many persons to go home for their lunches.

The average fare paid by all passengers in Glasgow (population 1,150,000) in 1912 was 1.72 cents; in Manchester (population 950,000) 2.32 cents; in Liverpool (population 816,000) 2.24 cents; and in Sheffield (population 455,800) 1.8 cents.

The average fare paid on all of the 136 tramways operated by local authorities in 1910 was 2.1 cents, as opposed to an average of 2.48 cents paid on the 138 private companies. In 1911 the total fares collected in Glasgow were $4,748,740. At the prevailing five-cent fare charged in America these passengers would have paid $11,898,365. The passengers on all of the publicly owned street railways in Great Britain paid $47,437,170 on an average of 2.1 cent fares, as opposed to $105,-124,150, which would have been paid on a five-cent fare.

Financial Operations.—The total capital investment of the 136 local authorities operating street railways, which included nearly every large city in the United Kingdom, was in 1910, $220,541,250. The gross receipts for the year amounted to $47,437,170, against which were charged operating expenses of $29,436,216, leaving a net revenue of $18,000,955. The percentage of net earnings to capital invested was 8½ per cent. The publicly owned lines were operated at a lower ratio of cost than the private companies, despite the higher wages paid, the shorter hours and better conditions of employment. Working expenses of the local authorities to the gross income were 62.05 per cent, as against 62.52 per cent for the private companies. At the same time, while the cities earned 8½ per cent on their investment, the private companies earned but 4½ per cent.

The local authorities carried 2,102,483,010 passengers, as opposed to 675,445,481 by the private companies. This indicates the extent of public ownership, which now prevails in nearly everyone of the large cities in Great Britain.

The public undertakings are under the strictest kind of

Parliamentary supervision. They are required by law to amortize their debt by annual contributions to the sinking fund. In 1910, $5,893,875 of the gross earnings of all public plants was used for this purpose. In addition, the public companies, are required to pay taxes the same as the private companies, so that public and private operation is on a parity in all comparisons of earnings.

Aside from four small communities showing a deficit which amounted in the aggregate to but $15,000, most of the companies made very substantial contributions to taxation. The tramways of Manchester contributed $364,987 to the relief of taxation; Leeds, $275,000; Birmingham, $160,000; Liverpool, $135,000; Nottingham and Bradford, $100,000. In Glasgow the profits, which amounted to $265,000, are paid into a special fund, known as the common good.

In 1910 the total contributions of the public tramways to the relief of taxation were $2,200,565. In addition, there was a gain to the public of $7,989,434 in the difference between the average fare charged by the publicly owned tramways and the average fares of the private companies.

There is no question about the financial success of public operation. The indebtedness of the cities is being rapidly amortized. In addition to the regular debt charge provided by law, cities make very substantial contributions to depreciation and reserve. For instance, Glasgow in 1910 repaid its debt to the extent of $448,470 and added $1,102,895 to the depreciation and reserve. The sum contributed to depreciation and reserve, in addition to debt repayment, by Manchester was $375,000; by Liverpool, $427,555; and by Sheffield, $106,980. These statistics are authoritative. Municipal authorities are required to keep their accounts according to standards fixed by the local government board. Annual returns are required to be made, while the reports are published each year and are subject to scrutiny. The books of the municipality are also audited by the central authorities, in order to make sure that all requirements as to debt repayment, depreciation, and reserve are properly provided for.

Confirmation of these statistics and further details may be secured from *The Municipal Year Book, London,* which gives complete statistics of all the local authorities in Great Britain.

Service.—Overcrowding is specifically prohibited in Great Britain, and rarely is it necessary to stand. Despite the protest

of street railway operators in this country that overcrowding is a necessity, Great Britain has successfully disproved this claim. In Liverpool 68 per cent additional cars are added during the rush hours. In Leeds the service is increased by 30 per cent in the morning, at noon, and in the evening. In some cities standing is prohibited.

Many cities, too, reduce their fares below regulation scale for workingmen in the morning and evening. In Manchester the three and four-cent fares are reduced to 2 cents, the five and six-cent fares to 3 cents, and the seven and eight-cent fares to 4 cents. In Leeds four-mile tickets are sold for 2 cents. The purpose of these rules is to encourage workingmen to live in the country and to still further adjust the tramway service to the needs of the working classes.

American Criticisms of English Experience.—Street railway operators in America urge that, whatever the success of municipal operation in Great Britain, it has little relation to America. They say that: first, the wages and cost of operation are lower in England than in this country; second, that the zone system makes comparison of fares difficult; and third, that the wider area of the American city still further confuses the comparison.

First, as to wages. The average wages paid in England are considerably lower than in this country. But other things qualify this disparity. In the first place, the English workman secures a number of other contributions to his wage. In addition, and far more important, the English tramway cars are very much smaller than those in America, while prohibition of overcrowding reduces the per car carrying capacity still further. Mere wages are, therefore, only one element in a comparison of labor cost, for if the overcrowded cars and their greater carrying capacity are taken into consideration, it is possible that the per unit labor cost in this country per passenger is little if any greater than it is in England. In addition to this the speed limit in Great Britain is but twelve miles, which is very much below the speed of the average American street car outside of the congested centers.

It is further claimed that the congestion of the cities and the zone system of fares make comparison difficult, and the higher charges for long distance travels increase the rate of fare beyond the minimum. *But it is the average rate of fare*

that should be taken into consideration, and the average fare in Great Britain is very much below what it is in the United States. As we have seen, for the country as a whole it is but 2.1 cents, as opposed to 5 cents in this country, while in Scotland the average fare falls to 1.9 cents. In addition, the wider dispersion of population in this country is to the advantage as well as the disadvantage of the street railways, for many persons are compelled to ride in this country who would be relieved of this were the distances shorter. Certainly, there would be a great increase in travel were the short distance hauls in this country reduced to a lower figure. In addition to these considerations, it must be borne in mind that the British companies are rapidly paying for their property out of earnings and are contributing most substantial sums to the relief of taxation.

Municipal Ownership of Gas.—The Municipal Year Book for 1912 gives the number of local authorities of Great Britain operating gas plants at 298 and the number of private companies at 511. The total capital invested by the local authorities is $151,002,260, and by the private companies $460,956,555. The local authorities operate their plants at a cost of 72.86 per cent of the gross earnings, while the private companies operate at 74.87 per cent of the gross earnings. The municipal authorities earn 9¾ per cent upon the capital invested, and the private companies 5⅝ per cent. The number of consumers of the local authorities was 2,666,000 and of the private companies 3,751,000.

The majority of the large cities outside of London, Liverpool and Sheffield own gas plants, and have for many years. However, gas has not been so universally municipalized as have the street railway, electric lighting and water undertakings, the reason for which being that the gas companies were granted indeterminate franchises at a time when the industry was in its experimental stages, and the introduction of electricity and the high recapture cost under the indeterminate grants have delayed municipal ownership in this field.

As in the street railway business, the cities earn large returns on the capital invested, and with few, if any, exceptions the gas plants are all profitable. The total contributions of all the municipal plants for the relief of taxation exceed two million dollars a year. This is in addition to the provision for sinking fund charges to retire the debt, provided by Parliament,

as well as appropriations for depreciation and reserve and taxes, for the public as well as the private companies are required to pay local rates or taxes.

Not only do the public companies earn a very much higher return upon the investment than do the private companies, but they sell gas at a substantially lower rate. The approximate average charge for 1,000 cubic feet by the private companies is 66 cents, while the approximate charge by the municipal authorities is 60 cents. Many cities, however, charge very much less than this. The rate in Birmingham is from 42 to 56 cents per thousand. In Manchester it is from 58 to 60 cents, in Nottingham 52 to 56 cents; the charges of the sixteen largest cities being from 42 to 60 cents per thousand.

Through public ownership the public authorities are able to experiment in a variety of ways. They provide penny-in-the-slot devices, so that the poor are able to secure gas on easy terms. Several cities maintain shops for the selling or renting of gas stoves, by means of which they stimulate the use of gas among the poorer classes. Streets, too, are lighted in a generous way, as an effective police measure. Nowhere is there any tendency to return to private ownership in this field.

Electricity Supply.—Electricity has been more universally municipalized than has gas. Cities were slow to grant franchises to private corporations, seeing in this enterprise an opportunity of making substantial profits as well as of coordinating the electric light and street railway power plants under a common management. Practically all the large cities own their electric lighting plants, and many operate them in connection with the street railways, the day load being a traction and power load, and the night load used for lighting purposes.

I have interviewed many British officials and business men, and nowhere have I found any desire to return to private ownership. The gains of public operation are too obvious. Nowhere is there serious complaint of the service rendered or of inefficiency in management. Generally speaking, cities are prompt to appreciate new improvements and to introduce them. Municipal plants are constructed with great stability and with adequate provision for future growth. Rarely is the suggestion heard that the plants are not a financial success. Rather, the complaint is more frequently heard than the rates and charges are higher than is necessary in view of the financial earnings.

Further than this, it is almost universally true that the progressive cities, the cities that command the highest type of men in the council, that have the finest civic spirit, are those which have gone in most extensively for municipal trading. The most influential men in the community are attracted to city service by the magnitude of its undertakings and the opportunity for service which the management of these activities makes possible. Men give generously of their time to serve upon council committees, they go from city to city and even to foreign countries to study improved methods, and indulge in a healthy rivalry in the administration of their departments. In addition to the financial advantages of municipal ownership, substantial ethical and psychological gains have accrued in the attitude of the community to the city. All classes take an interest in its activities, in the reports of the various departments, in the discussion over administration, and in the balance sheets of the street railway, gas, and electric lighting undertakings. The communal ownership of many services has awakened a political reaction on the part of the community, that has undoubtedly created a better civic spirit than that which prevails in those few towns where the public service corporations have been left in private hands. And this, in many ways, is the most substantial gain that has yet come from municipal ownership.

Of the 50 largest cities in Germany 23 own and operate the street railways, 50 the gas works, 42 the electricity supply, and 48 the water supply. In addition, German cities own many other activities. Those upon the water front own and operate their harbors. They operate municipal savings banks and pawn shops, they conduct wine handling businesses, land speculation schemes and many other activities of profit and service that are not included in the program of municipal ownership in Great Britain The German city has carried socialization further than any city in the world, and it has done it despite the fact that the German city is governed by business men, who, through the limitations on the suffrage, elect the members of the council, who in turn select the administrative agents.

The most progressive cities in Germany have monopolized all of the public service undertakings, and the systems installed in cities like Frankfort, Düsseldorf, Cologne and Dresden are in rather sharp contrast to the privately owned street railway

lines in such cities as Berlin and Hamburg. The construction is of the most permanent kind, while the cars are comfortable and are equipped with many conveniences for the comfort and safety of the public. Beautiful waiting stations are found on the street, advertisements are excluded from the cars, transfer stations are to be found, while many other services have been introduced by the public officials. The rate of fare upon municipal lines is generally 2½ cents.

In Germany, as in England, public service corporations are run primarily for service rather than for profit, although a number of cities do derive a substantial sum for the relief of taxation from this source.

One of the motives leading to public ownership of the means of transportation in Germany is the comprehensive town planning schemes which have been adopted by all cities. Housing conditions in Germany are bad, almost as bad as they are in Great Britain. Street railway companies were unwilling to extend their lines to the suburbs; they were unwilling to make improvements in the service. Cities found it impossible to regulate private operation so as to coördinate the service with the town development projects which had been carried through on a most elaborate scale. When new streets are being laid out, the city itself does all the construction work. It not only builds the sewers but installs the water and gas mains and electric lighting conduits. The city also builds the street railway lines, which are solidly imbedded in the street construction. As a consequence of this ownership and control of all these services streets are permanently built; they are not torn up by warring individual companies, and the citizens are saved from the annoyance, expense and dirt of constant interference with the highways of the city by individual operators.

Nowhere in Germany where public ownership prevails is there any suggestion of a return to private ownership. Officials, business men and all classes unite in approval of the transfer of these agencies to the public.

Undoubtedly municipal ownership is justified on financial grounds. Even in America public water and electric lighting plants are almost universally operated at a lower cost to the community, with better service and with more regard for the convenience of the public than are the private plants. But the financial gains are the least important. The real gains are social,

ethical and political. Where municipal ownership prevails there is none of the corruption and class warfare which is found in America and which is largely traceable to the private ownership of these valuable concessions from the community. The protracted contests which rent the city of Cleveland for ten years, which continued like a civil war in San Francisco, which delayed progress in Detroit, Toledo, Denver, Chicago, and which have characterized the political life of Philadelphia, are unknown. There are no franchises to scramble for, no great privileges to be secured through the bribery of councils and the control of the city. I am satisfied that the franchise corporation is more largely responsible for the corruption of the American city than is any other agency. And the ending of this corruption can only be effectively brought about through the transfer of this public service into public hands. And one explanation of the honesty of the British city is the policy of municipal ownership which prevails, for the great prizes which in this country solidify the talented men of the community against the community, are in Great Britain in public hands. In addition to this, private ownership of these activities divorces the best talent of the city from interest in the city politics. Conditions are the same in all cities, especially where regulation or municipal ownership is a political issue. The public service corporations employ the lawyers, they own or influence the press, they open or close the avenues of political and social preferment. They become the public opinion of the community. The professions reflect this point of view. Public service corporations are intimately related to the banks in which they make the deposits and through which they do their financing. The banks in turn control the credit of the city and through this control imperil the business existence of men who identify themselves with the public against these corporations. Further than this, talented men are excluded from municipal politics. They are excluded by reason of the conflict of interest. They cannot aspire to membership on the council, even if they desired. All this is reversed in England and Germany. Men in these countries are free to enter municipal politics. Their purse is not at war with their patriotism. And just as men are eager to serve on the board of directors of a railway or of street railways in this country, so in European countries men of like talent are eager to serve the largest cor-

poration in the community, which is the city. To be an alderman is the goal of many men's desires, while membership upon the tramway, gas or electricity committee is the most sought after assignment in the council. Men seek these posts for the same reason that they aspire to be on the directorate of private corporations in this country. They enjoy the power which it offers, to which is added the joy of service to the community, which sprang into new life in Great Britain coincident with the policy of municipal ownership.

Mr. John Burns, of the British Cabinet, said to me that the renaissance of local government in Great Britain was coincident with the period of trading. It covers the last twenty years. A new enthusiasm came into existence when the community began to own these services, which touched the people every day in countless ways. The affection of the people is awakened, while their interest in public affairs is kept alert.

The tramways are a topic of constant discussion. The balance sheets of other towns are carefully watched. In the council and on the streets the earnings, rates of fare and disposal of surplus are matters of constant discussion. When a new tramway line is opened a holiday is declared; business is suspended; the cars are covered with bunting and a day of general rejoicing is indulged in.

It is probable that the tramways are the most efficient department of the city, because of this very inspection, which makes bad administration impossible. In addition, officials, citizens and employees seem animated by a pride in their positions that extends to all classes.

MUNICIPAL OWNERSHIP OF STREET RAILWAYS IN GLASGOW[1]

The Glasgow tramways are managed by a Committee of the City Corporation, which holds frequent meetings and reports regularly to the City Council. It consists of twenty-eight members, who appoint sub-committees for supervising different departments. It obtains the sanction of the Council for its actions. The Council might be regarded as the legislative authority, and the Committee as the executive.

[1] By Robert Donald. Outlook. 80:431-5. June 17, 1905.

From a financial point of view the Glasgow undertaking has been remarkably successful. A cautious policy has been adopted. As I have pointed out, the original capital for constructing the roads was paid off when the municipality obtained possession. More capital was borrowed, on the credit of the city, to start the horse traction system, and the city has been continually borrowing to meet additional capital expenditure, until the capital now stands at over $12,000,000. The Council pays a little over three per cent. interest on the capital, which is borrowed for a period of thirty years. It has adopted the policy of practically renewing the permanent way out of revenue, depreciating heavily, and building up revenues in order to keep down capital expenditure. Unlike other British cities, Glasgow does not use its surplus profits for the relief of local taxation. It pays a mileage rate on the same basis as the old company did into what is known as the Common Good Fund of the City—a general fund which can be applied to any purpose for increasing the amenities of the city and the welfare of the people. This mileage rate amounts to $125,000 a year. The result of pursuing this cautious policy as to capital expenditure, and carrying out repairs and renewals from revenue, was that, by the time the whole system was converted to electric traction, the whole capital incurred four or five years previously for equipping the horse system had been entirely extinguished.

Last year's accounts indicate the healthy financial condition of the tramways. The total receipts, for instance, amounted to £724,857 ($3,624,255), the operating expenses to £356,820 ($1,684,100)—49 per cent. of the revenue. The net receipts showed a gross return on the capital outlay of 17.46 per cent. The interest and franchise charges to other municipalities amounted to £64,376 ($321,880). The payment into a sinking fund for redemption of capital at the rate of two per cent. was £45,553 ($227,765). There still remained the huge surplus of £258,102 ($1,290,510), which was allocated to depreciation and reserve fund, and the payment of $125,000 in mileage dues to the Common Good Fund. The ordinary depreciation on equipment, power stations, cars, etc., amounted to $393,095. There was a special depreciation for cables, overhead wires, buildings, etc., of $310,000. There was carried to a general reserve fund $93,950, and to a permanent way renewal fund $300,135. This fund now stands at $965,025. The tramways undertaking makes the same

contribution to local taxation as if it were under private enterprise. The amount which it paid in taxes in the last financial year was $174,580. The accounts of the department are examined and audited by independent professional accountants. The accounts are published with elaborate detail, showing the smallest item of expenditure worked out to percentages and comparisons with previous years.

The Tramway Department, as I have indicated, generates its own electric power, the total cost of which is less than one cent per kilowatt hour.

The Tramways Committee delegates considerable power to its general manager, who is responsible for the staff who form part of the permanent civil service in the city. Politics does not influence appointments, and promotion is by merit.

In conclusion, I would like to point out that the Glasgow tramways system has not by any means reached its high-water mark of efficiency. With its cautious financial policy, the Tramways Department could in a few years accumulate reserves which would enable it to introduce the underground trolley without adding greatly to its capital, and further swell its earning powers. With liberal depreciation and reserve funds to meet renewals and obsolescence, with a redemption fund which liquidates the original capital of the undertaking in thirty years, which is at the same time maintained in an efficient condition out of revenue, the City Corporation is more than doing its duty to the next generation. Lower fares for long distances should be easily possible in the near future, and there is a prospect that the average fare will come down to one cent. A universal one-cent fare irrespective of distance could then be adopted.

ARGUMENT FOR THE MUNICIPAL OWNERSHIP OF A STREET RAILWAY COMPANY[1]

Nearly all the arguments commonly advanced by persons urging the operation of street railway companies by the municipal government are contained in the minority report of a subcommittee of a citizens' committee of Detroit, Mich., filed in December. Detroit being a typical American city, the applica-

[1] City Hall. 2:225-7. January, 1910.

tion of the ideas of the municipal ownership enthusiasts in this instance is of great interest to all those who are impartially studying the question, and THE CITY HALL prints the report practically in full, following the outline chosen by the sub-committee:

1. Is municipal ownership financially practicable?
2. Can it be made economically possible?
3. Is it morally right?
4. Can it free us from political corruption?
5. Is it the best as well as the only reasonable and feasible plan?

Is It Financially Practicable?

"Our investigation shows that a municipally owned and operated street railway system cannot financially fail in this city for the reason that it will always be within the power of the city to make the expenses of transportation cover the cost of operation, just as we do now with our water works and other municipal institutions. Just what the cost per passenger would actually be it has not been possible for us to exactly figure out. But this is plain: with municipally owned lines, based upon the actual cost of construction and operation, we can greatly reduce the present rate of fare. This is self-evident when we consider the conditions of the old company and their expenses. It is burdened with a debt much greater than the actual valuation of the property. If we consult the company's own reports, we can see what an enormous reduction could be made in the way of reduced fares if the lines were owned and operated by the municipality.

"The Detroit United Railway, in its report to the American Street Railway Investment for the year ending December 31, 1908, states that it operated in the city of Detroit, during that year, 23,977,814 car miles, that its earnings per car mile for each mile operated were 23.05, or a fraction over 23 cents per mile. It states that its net earnings, after paying taxes and all legitimate operating expenses, were 8.53, or a fraction over 8½ cents on each and every car mile so operated. This, taking, its own figures, left it a net profit, after paying all legitimate operating expenses and taxes, over the sum of $2,045,000. This gives us some idea as to what can be done in the way of lowering the

fares if the system is operated by the municipality in the interest of the people.

"The money to finance such a proposition can easily be raised. Controller Doremus proved this only a few evenings ago in a public address. If you were to grant the present company a franchise for 30 years, based upon 6 or 7 tickets for a quarter, the directors would go into the money market and borrow millions with nothing back of it but the franchise. Has not the city this same opportunity? We not alone have the franchise, but we have the property on which to issue these bonds. The bonds will always be secure. Money can be borrowed by the city at a lower rate than by the D. U. R. There will never be any danger of a foreclosure, for the city has within itself the power to regulate the fares to meet the liabilities that may from time to time occur. Therefore, there can be no more chance of the system failing under municipal ownership and operation than there is for the city of Detroit to disband its municipal organization.

Can It Be Made Economically Possible?

"To say that a municipality cannot operate its street railway as economically as a private company is to declare the judgment of the 400,000 people of Detroit unequal to the wisdom and judgment of the 6 or 7 foreign directors of a private company. Can not the city hire men of brains? Can it not hire the same experts and the same men with equal skill to operate the cars that the present company employs? Most assuredly it can, and it will. There is no great mystery or hidden secret about the successful operation of a street railway. There are not even the complications to contend with that surround the average business concern. The street railway does a cash business. It receives its money in advance. In this way it has the advantage even over our other public utilities. The expenses per car mile are easily figured, and the rate or rates of fares to make it successful are also easily established.

"Great Britain alone has close to 2,000 municipal undertakings. The incomes from these enterprises total each year in round numbers, $150,000,000, and, as stated by Prof. Frederic C. Howe, who made a critical examination of the conditions of these enterprises for the National Bureau of Commerce and Labor at Washington, it is equivalent to 23¼ per cent of the

total revenues collected from all sources in England and Wales, and to 39 per cent of the total revenues of Scotland.

"One hundred and forty-two of these municipal undertakings are street railway systems, and Mr. Howe adds that the gross profits to the municipalities from this source is close to $10,000,000 a year, besides a generous amount paid in taxes. The capital used in the street railway enterprises is about $200,000,000, all raised on the faith of the public in these undertakings, and there has yet to be an instance in which those loaning money to municipalities for this purpose have lost a single cent. Many of these enterprises are not run to make money, however; they are run to give the cities service at cost, or as near cost as is safe.

Is It Morally Right?

"There are some who contend that it is not morally right for the city to enter into a business that can be conducted by private individuals. It s always morally right to protect our interests, either individually or collectively. It is not only a moral right to protect ourselves from monopolies, but it is a legal right, and therefore becomes a personal duty. As to the operation of street railways in a municipality, it is not a competitive industry. The history of the entire world demonstrates this fact. It is yet fresh within our memory how ex-Mayor Pingree encouraged the Detroit Electric Railway, known as the three-cent line, with the understanding that it would be a competitor, competing with the other roads within the city; but how long did that competition last? A consolidation soon took place, and the roads were owned and operated by one company and it has held an absolute monoply over the city. Thus the question naturally comes as to whether it is morally right to protect ourselves against this condition, and the effect of this combination upon our civic life. The fundamental test of any institution, method or service must be its effect upon the public good, its relation to morals, manhood, government, civilization and progress, as well as its financial side. In applying the vital test, the principal emphasis must not be placed alone upon the financial results, but the human results must be considered as well. The character products and the social products of our institutions are of as great, if not greater moment than the money products.

"There is too much interest, too much affecting society and its future welfare to trust and place these street railroads again in the hands of private parties, whose only object and aim is to secure the almighty dollar. In order to establish the proper standard of morality in civic life it is necessary that the municipality own and operate its own street railways, give service at cost, and eliminate the element of allowing a private company to do the public's business for profit.

Can It Be Free From Political Corruption?

"In considering the political question as it affects this problem, let us be absolutely honest and sincere. Is it not bad politics to urge us to commit municipal functions to private control? Is there not ten times more bad politics in private than there is in municipal control? There is less opportunity for bad politics in municipal control than there is in private control. There is less incentive for the city to employ those of bad politics than there is for a corporation to employ those of bad politics. Where have bad politics been discovered? Who have been responsible for its employment? Where bribery and treachery in municipal affairs have come to light, who have been the guilty ones? Were they among those endeavoring to retain to their municipalities their full functions and rights, or were they those who resisted and sought to defeat municipal ownership and the city's rights? An honest answer to each of these questions is in favor of the municipal ownership of public utilities. Once these utilities are municipalized and in the hands of the people, the cause for bribery and political corruption will disappear. An investigation of the institutions even of our own city that are now in the hands of the municipality shows that the political corruption surrounding these institutions has been lessened—yes, almost destroyed.

Is It the Best as Well as the Only Feasible Way?

"Let the municipality arrange so that the people can elect or select an honest commission of five members free from any partisan or political interference. Let the commission be the choice of the citizens of this city, and place in their hands the complete management and direction of the street railways. Pay each member an adequate salary, and let each be subject to recall by popular election on petition of 25 per cent of the electorates.

There is no question but what you will then see graft absolutely removed and the city free from much of the corruption that has come from these sources of corruption and that have menaced our civic life in the past.

"To establish the conditions for which we were told this committee was appointed, municipal ownership is the only way in which it can be done. The history of private corporations the world over has but one page. They are operated in the financial interest of the few, with little consideration for the people, either for those who are patrons or for those who operate the cars and do the work. Their private interests are paramount and must be first served. Investigation throughout all the world shows that the municipalities everywhere are taking over these institutions. Water works were first taken over because water is closely related to the health of the community. Then came gas and electricity. Next comes the operation of street railways, and wherever they have been taken over, they have been a success, all things considered. The results have been higher wages and shorter hours to the employes, and better service and lower rates of fare to the people. There is no question but what municipal operation of street cars is the best and most feasible way offering itself to Detroit at this time.

"Nor is there any menace to the community in increasing the number of city's servants through the operation of profitable enterprises. Detroit today has between 3,500 and 5,000 employes, and the number can easily be increased by 2,500 to 3,000 without any danger. Glasgow has 15,000 city employes, or 10 per cent of its voting population. Altogether British cities employ between 150,000 and 200,000 men. Yet in no instance is it claimed that this political power is manipulated in favor of any political organization. But when public service corporations are privately owned, the contrary is the fact. Pressure is always brought to bear on employes of private corporations doing public business to vote as their employers desire them to, regardless of their own personal preferences, or of the effect it may have on public interests.

Recommendations to the Common Council.

"We therefore recommend to the common council:

"First. That they grant no more franchises for the purpose of operating privately owned street railways to any person, corporation or company.

"Second. That the council make arrangements to at once inaugurate and establish a thorough system of municipality owned street railways covering the entire city.

"In order to establish and properly operate such a system, we recommend that they first arrange and have elected by a special election a non-partisan commission who shall have the direction and control of the inaugurating and the operation of the municipally owned street railways. We advise that in establishing the roads they first take over such streets and lines on which the present franchises have expired, and that then the commission shall make arrangements for the purchase from the old companies, at actual physical value, such lines as these companies still retain the franchises on, providing the company will dispose of them to the municipality at actual physical value.

"In case of refusal, the commission shall proceed to establish lines that will give the people a complete service, and, if necessary, parallel such lines as have franchises, or by placing temporary tracks, in and upon the same streets if necessary, until the entire city is completely covered by such municipally owned and operated street car system.

"To adopt any other method than municipal ownership to settle for once and all the problem of street car transportation at cost, is to continue the friction and wrangling between the city and the corporation during the life of any franchise that may be given. A municipality of 400,000 people never yet had the wisdom to legislate most wisely for a municipality which will soon have a population of a million. Human intelligence is too finite to know what will be the cost of transportation when a few more miles of trackage is going to accommodate twice the present traffic, with only a small percentage increase in the cost of doing the service.

"To the time-tried axiom of a 'corporation has no soul,' and particularly a corporation with a franchise from a populous city, may be added another, 'Privilege knows no honor.' A corporation with a franchise can invent a hundred ways to squeeze profits from the public through unsatisfactory and inadequate service, low wages and long hours for employes and high fares. No great city will seriously blunder so long as it keep control of all its public utilities. And only in this way can cost and service be harmonized."

MUNICIPAL OWNERSHIP OF NATURAL MONOPOLIES[1]

The question under discussion relates to the ownership and management of those local businesses which furnish what are called public utilities. The principal classes of these public utilities are water, light and transportation. They are called monopolies because, as we know from experience, we cannot have in their case effective and permanent competition.

It is often said that we do not want to decide the question of municipal ownership in accordance with general principles, but that each case should be decided as it arises. If New York City desires public ownership of water-works, it is urged, let New York City by all means try the experiment. But let New Haven, if the people of that city so desire, continue private ownership of water-works. Still others say, let us adhere to private ownership until we find that we have made a serious mistake in so doing. Both these attitudes imply the renunciation of science, or a denial of the possibility of a scientific solution of the problem. Imagine such an attitude in engineering as applied, let us say, to bridge-building. The result would surely be disaster. The outcome of this attitude in what we may call applied economics or social engineering has likewise been disastrous. Mistakes have been made which it has not been possible to correct, or which have been corrected with great loss. The private ownership of water-works in London, which still persists, although recognized to be an evil many years ago, affords an illustration. If at length this evil is corrected, it will cost the taxpayers many millions of dollars which might have been saved. Innumerable illustrations could be afforded, did space permit. What must be desired by any one who has an appreciation of the nature of modern science, is the establishment of general principles whereby mistakes may be avoided and loss prevented. The practical man will naturally take into account the actual, concrete conditions in his application of general principles. The social engineer must, in this particular, follow the practice of the mechanical engineer.

When we approach the question of public ownership *versus* private ownership of such great industries as those connected with artificial light and transportation, our attention is attracted

[1] By Richard T. Ely. North American Review. 172:445-55. March, 1901.

by the municipal corruption which exists, particularly in our own country. The fact of this municipal corruption, and also the further fact of the very general incompetency in the management of municipal affairs, are not called in question, and they are not under discussion. The corruption and incompetency may not everywhere be so bad as many pessimists imagine, and it may, furthermore, be true that, in both respects, we have in many cities witnessed gratifying improvement. Yet, when we have made these admissions, the true state of the case is bad enough. The civic conscience with us is slow of development. The satisfactory performance of public duties implies, in some particulars, a higher civilization than we have reached. It requires some development of the imagination to see the harm and suffering brought to countless individuals by lapses in civic virtue. Furthermore, it implies a higher development of conscience than that found in primitive man, to reach that state in which there is a conscious desire to abstain from all acts which may hurt people who are not seen. Many a man will give to a poor widow, whom he sees, money to relieve her distress, but, at the same time, will not hesitate to increase the burdens of poor widows whom he does not see, by fraudulent evasion of taxation.

The sort of men now in our municipal councils are not the kind of men to whom we would gladly turn over vast business interests. The very thought repels us. Whether or not they are morally better or worse than the men who in many cases are said to corrupt them, and who now exercise an important influence in the management of privately owned public utilities, it is freely conceded that they are less fit for the conduct of important businesses. We want street railways managed by men who understand the street-railway business, gas-works managed by men who understand the gas business, and neither class of enterprises managed by men whose gifts are most conspicuous in the partisan manipulation of ward politics. It is important that it should be understood that the advocates of municipal ownership do not call in question the fact of municipal corruption and inefficiency in the management of public business, and that they have no desire to turn over the management of public utilities to a class of men who must still be considered typical in the municipal council of the great American city.

But when we have admitted freely corruption and inefficiency

in municipal government, it still remains to examine into the causes of these conditions, for there is a very widespread suspicion that a large share of the responsibility therefor must be laid at the door of private ownership. A real, vital question is this: would we have the same class of men in our common councils which we now find there, should public ownership replace private ownership? Is it true that private ownership places in office and keeps in office some of our worst municipal wrong-doers? It is important that the reader should understand the real nature of the problem under discussion, and it is believed that these questions which have just been asked bring before us a large part of that problem. This important problem, the solution of which is of national significance, should be approached with no partisan bias, and no angry recriminations or denunciations should be tolerated. The spirit of the injunction, "Come, let us reason together," should be the spirit of approach.

We must clearly and sharply fasten in our minds the indisputable fact that, with respect to public utilities of the sort under discussion, we are confined to one of two alternatives. These alternatives are public control of private corporations, and public ownership with the public control which naturally springs from ownership. The experience of the entire civilized world has established the fact that we are restricted to these alternatives. We may have private street-railways, private gas-works, private water-works, etc., but in that case it is invariably and in the very nature of the case necessary to exercise public control over their operations. Charges must be regulated, general conditions of service must be prescribed, and regulation must be found for a thousand and one cases in which public and private interests touch each other. This is because, on the one hand, the nature of the service rendered is in such a peculiar degree a public service, and also because the effective control of full and free competition is absent. We may, on the other hand, choose public ownership and management. We could, of course, separate public ownership from public management, and consider each one. In other words, we could have a publicly owned urban transportation system with private operation. Generally, public ownership and public management go together, and in the limited space at our disposal we will not undertake to separate them.

It is freely granted that either one of our two alternatives presents immense difficulties. This is a further point concerning which there can be controversy among those who really understand the nature of the case. The evolution of industrial society has again brought us problems most difficult of solution. If we may use the language of design, history teaches us that Providence does not intend that men organized in society should have what we are always looking for in the future, namely, an easy-going time. Every age has its problems. In one age they may be brought by the inroads of barbarians, in another age by famine and pestilence, in another age by international wars. We have been dreaming of a coming time when no social problems should vex society; but, if history teaches us anything, it shows us that in such dreaming we are indulging in Utopian aspirations. Every civilization has been tested heretofore, and every civilization must have its test in the future, our own included. One of the tests of our civilization is the ability to solve the problem under discussion.

The question which confronts us is this: Which one of the two alternatives promises in the long run the best results?

Those who talk glibly about public control of those private corporations owning and operating public utilities frequently exhibit a sad ignorance of what their proposed remedy for existing evils means. They think in generalities, and do not reflect upon what control means in details. We have to observe, first of all, that public control of private corporations furnishing public utilities so-called means a necessary antagonism of interests in the civic household. Human nature is such that those who are to be controlled cannot be satisfied with the control exercised. However righteous the control may be, those who are controlled will frequently feel themselves aggrieved and wronged, and will try to escape the control. It is, furthermore, a necessary outcome of human nature that those persons who are to be controlled should enter politics in order that they may either escape the control, or shape it to their own ends. Again, we must remember that vast aggregations of men and capital it is proposed to control. The men owning and operating the corporations which furnish public utilities are numerous, and they maintain large armies of employees of all social grades, from the gifted and highly trained attorney to the unskilled laborer. The amount of capital involved in a

great city is counted by tens of millions. The very nature of the case brings it about that there should be persistent, never-ceasing activity on the part of those to be controlled. The effort to escape from this control, or to shade it, is a part of the efforts by which men earn their livelihood, and their activity is as regular as their hunger. The efforts of patriotic and high-minded citizens, in their self-sacrificing neglect of their private affairs to look after public concerns, may grow weary, but not so the activity of the corporations to be controlled. Can a task of greater difficulty be well suggested? It is not said that the problem here presented is one which it is impossible for modern civilization to solve; but it is well that the general public should know precisely what it means. Some of us are to control others of us, and to do so against their will. But who are those whom we are asked to control? They are very frequently our friends and neighbors. I am asked to resist what is esteemed the extortion of a gas company; but one of the gas magnates may be my neighbor and friend, and occupy a pew next to mine in church. Perhaps the gas magnate is my employer. Perhaps he has just contributed, and with the best intent in the world, one hundred dollars to an object which I have greatly at heart. Perhaps I am a college professor, and the street-car magnate whose rapacity I am called upon to help hold in check has endowed the chair which I occupy. Imaginary illustrations can be continued indefinitely, and those who desire to do so can in any city make them sufficiently concrete. Is it strange that many of us who are called upon to control others of us should simply refuse to do it?

In so brief an article as this must be, it is possible to do little more than to throw out suggestions. It is noteworthy that in Massachusetts public control of corporations furnishing public utilities has been tried more persistently than anywhere else, and that in that state there is a stronger sentiment than anywhere else in the Union in favor of public ownership and public management. Serious charges have been brought against the Board of Gas and Electric Lighting Commissioners, which has to exercise control over gas and electric-lighting plants. Even a paper of the standing of the *Springfield Republican* has felt called upon to rebuke the board severely for keeping secret information which it has gathered. The attitude of the board is characterized as "extraordinary." "If the board," says the

Springfield Republican, "is empowered to keep secret what information it is pleased to, how are the people to know that they may not become a mere agency of the monopolies to cover up and justify their possible undue exactions?" Insinuations of this kind are frequently heard in Massachusetts. Dismissing all charges of corruption and bad intention, we have as a net result a strong movement in Massachusetts, away from private ownership of public utilities, to public ownership.

The writer has followed this subject, and the trend of opinion with respect to it, for fifteen years with some care. In his own judgment the trend in favor of public ownership is marked and surprising. He has seen one investigator after another start with prepossessions in favor of public control of private corporations, and turn away from that position as a hopeless one, and take up a position in favor of public ownership as the only practical solution under our American conditions. There lies before the writer a letter recently received from an attorney, a member of a well-known firm in one of our great cities. This lawyer has been forced by experience to abandon the position in favor of private ownership. He says, as the result of long-continued and self-sacrificing efforts to improve politics in his own city:

> "The alleged benefits of regulation are practically as impossible as an attempt to regulate the laws of gravitation, for our legislative councils are nominated, elected and controlled by forces too subtle and insidious to be attacked, and even to be known. * * * A community cannot regulate against millions of dollars organized to prevent it. This temptation disappears, however, when the municipality becomes the owner."

The difficulties of public ownership are not to be denied. They lie on the surface. The problem in the case of public ownership is to secure men of talent and experience to conduct these enterprises, and keep them in office during good behavior; to engage men for all positions on the basis of merit, and, while retaining vast armies of employees, to enact such legislation and administrative reforms as will prevent employees of the city, engaged in furnishing public utilities, from either using their political power for their own selfish ends, or from being used for partisan purposes. This implies, on the part of society, an appreciation of excellence of service, and a thoroughgoing reform of municipal civil service. Politicians of the baser sort, and all those who have selfish ends to be gained by political corruption, will work against such reform. On the other hand, public ownership with public operation presents the

issues in a comparatively simple form. The clarification of issues is, indeed, one of the strong arguments in favor of municipal ownership. Who knows to what extent employees on the street railways of Baltimore, Philadelphia, New York and Chicago are appointed through the influence of politicians? It is known, however, that many appointments are made through the influence of politicians of precisely the worst sort. It is furthermore known that these corporations are now generally in politics. But because the corporations furnishing these public utilities are owners of private property, and because they conduct a business which is only quasi-public, the political corruption with which they are connected is hidden and obscure, and voters are confused and perplexed. Public ownership carries home to every one the importance of good government, and arrays on the side of good government the strong classes in a community now so often indifferent. Frequently men who are powerful in a community, in working for good government, work against, rather than for, their own private interests. It is, indeed, gratifying to see men of wealth, as frequently as they do, turn aside from selfish considerations to promote measures calculated to advance the general welfare. But can we expect this kind of conduct persistently from the great majority? Have we any right to expect it? A personal allusion is sufficiently instructive to warrant reference to it. When the writer had invested what was for him a considerable sum in gas stock, he tried to answer for himself this question: As an owner of gas stock, exactly what kind of a municipal government do I want? The government of the city in which was located the gas-works in which the writer was interested was a stench in the nostrils of reformers throughout the country; but he could not persuade himself that as an owner of gas stock any very considerable change was for his interest. The city government, as it then was, was a "safe" one, and the result of a change could not be foretold. Is not this, as a matter of fact, the solution of the problem which owners of stock in street railways, gas-works and similar enterprises generally reach when they look at municipal reform solely from the point of view of self-interest? And can we, then, be surprised at a certain apathy and indifference on the part of what are called the "better classes" in a community? Men of great wealth have been known to work directly against their own narrow interests for the public weal, but has an entire class of men ever been known to do this?

A further result of municipal ownership would be a better balance between private and public interests, and this better balance would strengthen the existing order against the attacks of socialists and anarchists, on the one hand, and unscrupulous plutocrats, on the other. A balance between private and public enterprise is what is fundamental in our present social order, and a disturbance of this balance consequently threatens this order. This balance is favorable to liberty, which is threatened when it is disturbed either in the one direction or the other. Any one who follows passing events with care cannot fail to see that it is menaced by socialism, on the one hand, and by plutocracy, on the other. A man of high standing in Philadelphia, himself a man of large wealth, when presiding at a public meeting recently, stated, practically in so many words, that a professor in a school of some note had lost his position on account of a monograph which he wrote in relation to the street railways of that city. This monograph was temperate in tone, and its scholarly character elicted commendation on all sides. We need not go into the merits of this particular case, but we cannot fail to notice disquieting rumors in regard to the attacks upon freedom of speech, which an outcome of private ownership of public utilities. There is a widespread apprehension that the utterance of opinion upon one side promotes one's interest, and that the utterance of opinion upon the other side may prove damaging. Mathematical proof cannot be well adduced, but readers can, by careful observation, reach a conclusion as to the question whether or not our industrial order is menaced by plutocracy, always bearing in mind that plutocracy does not mean honestly gotten and honestly administered wealth. There are good rich men, and bad rich men, as there are good poor men, and bad poor men. Does private ownership of public utilities, on the one hand, tempt rich men to wrong courses of action, and does it, on the other hand, place great power in the hands of unscrupulous wealth?

In an article restricted as the present is, it is impossible to go statistically into experience. The question may be raised, however, Has any one ever noticed an improvement in municipal government from a lessening of the functions of municipal government? Can any one point to a municipal government which has improved because its duties have been diminished, and the number of its employees lessened? If we turn

away from local government, do we find that it is through the lessening of the function of government in general that an improvement is achieved? At one time, the Italian government operated the Italian railways. Later, it leased the railways to a private corporation. Has this retirement of Italy from the operation of the railways produced a regeneration in public life? As we travel over this country, and observe the course of local government, do we not, on the contrary, find that, on the whole, it has improved as its functions have increased, and as it appeals directly and effectively to larger and larger numbers? The case of England is a very clear one. If we go back fifty years, we shall probably find that the government of English cities was quite as bad as ours is now. During the past fifty years, there has been a continuous improvement, and this has accompanied continual expansion of municipal activity, while at the same time, through an extension of the suffrage, English municipal government has become increasingly democratic in character. We must hesitate about establishing a casual connection between these two movements, but it is unnatural to suppose that there may be such a connection? When there is a great deal at stake, when the city has much to do, good government of the cities appeals to all right-minded persons; and if there is no division of interests through private ownership, we ought, in a civilized community, to expect to find all honest and intelligent people working together for good government. A tangible basis is afforded the masses for an appeal for higher interests, and reliance is placed upon municipal self-help. Instead of asking other people to do things for them—namely, great private corporations—the people are told to help themselves.

Mistakes and wrong-doing must be anticipated under either one of our two possible systems. What about the relative seriousness of the mistakes and wrong-doing, however? We have a certain demoralization in each case, and a certain loss. While in the case of public ownership we have an opportunity to recover from mistaken action, in the case of private ownership mistaken and wrong action is often irretrievable on its consequences. Take the case of New York City as an illustration. Jacob Sharp secured a franchise for the Broadway surface railway through wholesale corruption, and was sent to the penitentiary. The franchise, however, was retained by those

into whose hands it fell, and others have entered into the fruits of his theft. Under our American system of government, in cases of this sort stolen goods are retained. The franchises are retained, and the forgotten millions continue to suffer, because their rights have not been adequately safeguarded. With the other policy, namely, that of public ownership, how different would be the result? If the street railways were mismanaged, or their earnings stolen, it would be sufficient to turn out the municipal plunderers. Too many overlook what is distinctively American in our problem; namely, our constitutional system, which protects franchise grants when once made, and renders so irretrievable a mistaken policy, provided we have the system of private ownership.

Let it be distinctly understood that the position is not taken by the present writer in favor of municipal ownership at any and all times, and everywhere, and under all circumstances. It must come in the right way, it must come deliberately, and it must come provided with adequate safeguards. It must come as a part of other movements, especially of full civil service reform. But it is calculated in itself to promote these other reforms, and in some cases municipal ownership will be the first step in the direction of that full civil service reform which is so sadly needed. In some cases civilization may be in too low a condition to permit municipal ownership. The socialization of public sentiment which must lie back of proper social action may not have gone far enough. The question is: Have we the social man back of the social action which we advocate? If we are talking about the heart of Africa, with its individualistic blacks, unquestionably we have not the social man which would make possible any considerable amount of social action. Among barbarians and semi-civilized people the few must do things for the many. Social action must not be forced down from above, and it must not come accidentally, if it is to be successful. It must come as the result of full and free discussion, and of full and free expression on the part of the people. It is on this account that the initiative and referendum, in a country like ours, may properly accompany the social action. Have we in our own country the social man to back social action? If he does not everywhere exist, he is coming, and coming rapidly, and the amount of social action which the socialization of sentiment makes possible and desirable increases

in proportion as he makes his appearance. The question of municipal ownership is a question of social psychology. It turns on the nature of the social mind.

MUNICIPAL LIGHTING[1]

The United States today is knit together by a labyrinth of roads, avenues, streets, and alleys upon which the rich and the humble, the just and the unjust, are free to traverse on a common basis, without let or hindrance, so long as a decent regard for the rights of other wayfarers is observed. These thoroughfares, with practically no exceptions, were cut and constructed and are now being maintained by the people, through diverse political units or governments ranging in form all the way from simple village boards of supervisors to great municipalities like New York City. We have become so accustomed to this state of affairs, and the results have been so eminently satisfactory, that we never question the wisdom which prompted or the force of public opinion which has continued it. Though we may be desirous at times of changing the particular government officials who are empowered to exercise supervision over our thoroughfares, and occasionally find it imperative to do so, we never entertain any thought of radically changing the system or substituting private for public custody.

The care and maintenance of our streets and avenues is a very large and very complex problem, but as we are accustomed to it, we are not awed; yet, strangely enough, when the question arises as to whether or not governments should themselves light public streets, or engage corporations to do so, there is, on the part of many, a timorous uncertainty as to the wisdom of public ownership, and in some cases a vigorous denunciation of the plan. This denunciation is based on the assumption that the government cannot perform such work as satisfactorily as the corporations. That is to say, we accept the greater problem and shy at the lesser. In some cases, while this extreme view is not entertained, the almost equally absurd view is advanced that, though the government should be permitted to illuminate the thoroughfares, it

[1] By C. M. Sheehan and Albert Firmin. Twentieth Century Magazine. 7:8-15. November, 1912.

should be strictly confined to that work alone, and restrained from connecting the wires or pipes of such street system with the residences, stores, and factories of its citizens which line them. Yet in many cases those who fear such an extension of government ownership are the users of water delivered by municipal agencies, or the recipients of some other form of government activity of a parallel character. It is to show that there is nothing startling in the proposition of municipal ownership of lighting plants, and that such municipal plants are making headway even against tremendous and unfair antagonism, that this article is written. At this time, municipal electric lighting plants only will be considered.

The commercial conditions of the past fifty years have brought about a situation where men engaged in business are impelled to win trade, not by the superiority of the wares they offer or the modesty of their prices, but by preventing would-be rivals from engaging in competition against them. The effort is so to bring matters about that the market, whatever it be, shall be monopolized and fenced in for personal exploitation. The electric lighting of municipalities and villages is no exception. Those who at the outset of the development of electric lighting feared competition from municipal ownership or entertained designs of exploitation, quickly secured legislation to prevent cities and towns from constructing, purchasing, or taking over plants for public operation, except upon conditions which are intentionally designed to be difficult to fulfil. Ordinarily, the village, town, or city which desires to establish an electric-light plant must first obtain the consent of the legislature. The influence in our several legislatures of the interests that are antagonistic to the extension of public ownership is a matter of such common knowledge that it is not necessary to more than call it to mind here, when it will be seen what difficulties are likely to be encountered in the effort of citizens of a town or city to secure from the legislature enabling acts. Then when the consent of the legislature is finally obtained, the consent of the local authorities must be procured. After all of which it not infrequently happens that the question must be submitted to popular vote, and ordinarily finally to win out it must secure at least three-fifths of all votes cast on the proposition—in many cases, indeed, the affirmative vote must be equal to three-fifths of the vote cast for the highest

officer voted for at the same election, so that every person who fails to vote on the proposition has his vote counted against public ownership. And, after all these difficulties have been overcome, the contract for construction or the details of purchase must be approved by certain of the local authorities. While all these obstacles have to be overcome before a municipal plant can be installed, a private corporation can usually procure a franchise to supply current by a mere majority vote of a quorum of a legislature. Thus while a municipality is encountering difficulties which seem created to embarrass and harass it, the corporation can secure from the legislature the franchise it desires, and finds its path both straight and smooth. Yet with all these obstacles in the way, municipal ownership of electric-light plants has grown from one, in 1881, to 1377, in 1911.

It will be observed that the people are awakening to the necessity of municipal operation, for while in 1882 the ratio of public to private plants was but 1 to 8½, in 1892 it was 1 to 5, in 1902, 1 to 3½, and in 1911 it reached 1 to 3¼. If a municipal plant is abandoned, however, or substituted by a private plant, the press agents of the electric interests throughout the country advertise the fact far and wide and it goes forth that municipal ownership is a failure; and this notwithstanding that on the whole it is gaining ground. The Federal Census of 1907 shows that during the preceding five years though only 33 municipal plants changed to private operations, 113 private plants changed to municipal operation.

There is a feature of municipal ownership of lighting plants in the United States to which attention has never been adequately called, and which is of striking force as indicative of the struggle that is going on, and of how the movement towards municipalization is compelled to make headway very largely under the most disadvantageous conditions. In explanation of what this feature is, it should be said that electricity, like most commodities, can be manufactured in large quantities relatively cheaper than in small, and ordinarily the greatest profits can be realized in serving the largest communities. Small communities offer fewer inducements than large for capital, considered dollar for dollar; and hence, while the struggle of the interests has been to prevent the introduction of municipal plants anywhere, the opposition has been strongest in locations where profits

have seemed greatest. The burden of supplying the least desirable locations has fallen on the municipalities, yet an analysis of results shows they have been mainly successful.

This feature of confining municipal undertakings to the risks which look unprofitable, and leaving the good things in the commercial world to private concerns is not only true of lighting plants but is exhibited in the case of certain New York City ferries. These are pointed out as municipal failures, whereas the ferries were actually private failures before they were turned over to the city. The companies which operated them could not do so profitably. Matters went from bad to worse, and the communities which were dependent upon them, and particularly Staten Island, saw ahead great land value and property depreciation, if not absolute ruin, in the event of suspension of traffic, so that the municipality in self-protection was obliged to take that which no corporation or individual would continue. That municipal ownership of ferries would prove a failure from the standpoint of financial returns was a foregone conclusion, but the conditions were and continue such that no form of ownership can be anything but a failure on the same basis. As long as there was a prospect of profit either from operation or stock juggling, the corporation held on; when this ceased, it let go.

It is not to be understood from what has been said, however, that municipal ownership is absolutely confined to small towns, for there are numerous exceptions, and some of the greatest successes have been in large places; but a study of the history of their creation shows that the struggle has been the keenest and the greatest opposition has been encountered where the prospects have indicated that the trial would be most worth while.

In the case of private ownership in large towns and cities, it is very common for the extension of wires to be confined to the principal streets, as is the case in Brooklyn, N. Y. Here a private company has been operating since 1884, yet the streets upon which current can be obtained, even in the thickly settled districts, are comparatively few, and the company gives as an excuse that the cost of extension of its wires is prohibitive; yet in scores of villages throughout the country isolated plants are successfully operated under municipal ownership though the population thereof is no greater than that of a single square block in Brooklyn.

Investigation shows that in 173 places where municipal ownership prevails, with a total population of 1,158,143, the ratio of consumers to population is about one to eleven persons, whereas in Brooklyn, under private ownership, and with all the advantages of a compact population of about 1,700,000 in which to develop business, the ratio is only one to every 110 persons. In 173 places enjoying municipal ownership, it has been found that the ratio of consumers to population is the equivalent of every second family. This is important, for it shows, from the standpoint of service, that people must be getting what they want or they would not be seeking it so largely.

Naturally the question as to whether or not municipal plants are furnishing current as cheaply as private plants is very common. Let us again take the Brooklyn company as a standard of privately owned plants, a high exemplar of which it professes to be. Until recently its ordinary rate was 12 cents per kilowatt, but following a campaign by a leading civic association, in July, 1912, it reduced it to 11 cents, with much advertising of its concession; yet out of 251 plants recently investigated, all operated municipally, it was found that 201 charged less than 11 cents.

An analysis has been made of eighteen municipal plants whose method of bookkeeping conforms in details of cost to that of the Brooklyn company, the object being to compare the cost of the various units which enter into the cost of current. The results are shown in the accompanying table.

It is noticeable that the actual cost of generation and distribution combined is practically the same in the municipal and the private concerns. There is a wide difference, though, between the "general expenses" and "fixed charges" of the public and of the private company. It will be observed that the Brooklyn Edison Co., the private company, charges up under these headings two and a quarter cents out of a total cost of four and seventy-three one hundreths cents, whereas only one of the public plants equals this figure, and most of them are even below one cent. Further inquiry shows that, under the head of fixed charges, the municipalities in several instances are including sinking funds. The reason this item is so heavy in the case of private companies is that interest upon bonded indebtedness must be met from this fund, and the swollen bonded indebtedness is the burden that tells.

The corporations are forever complaining that they are oppressed by taxation and that it is unfair to compare them with municipal plants for the reason that such are untaxed, yet with our specimen private company we see that taxation is but three-tenths of a cent per kilowatt, out of a total cost of four and seventy-three one hundreths cents, and this includes the special franchise tax. Investigation brought out an interesting fact in respect to this company in this particular. In the report of the Public Service for 1908, it was set forth that the tangible property on which the "Kings County system" (Brooklyn system) is assessed for taxes was but $1,581,240, to which was added franchise value of $10,550,000, or a total of $12,131,240 on which tax was assessed, yet the reported capitalization was $20,805,993.92. It is conceded that the value placed on the property for the purpose of taxation was too low, and, it is fair to infer, was adopted to escape taxation. But even allowing for this, it is plainly apparent that the capitalization was out of all proportion to the actual value of the plant and equipment. The franchise value represents mainly capitalization of excess profits. How much better it is for the communities to construct their own plants and confine capitalization to the actual cost than to permit private parties to pyramid capitalization in this way and then burden the consumers with a weight of interest even to eternity.

In the case of private plants, whether business grows or not, there is practically never an effort to diminish indebtedness. The men who dominate the affairs of corporations are largely those who derive their incomes from the interest on the bonded indebtedness of their undertakings, and naturally the effort is to perpetuate and not to terminate their bonds. In the case of municipally owned plants there is contrary effort. It is found, for instance, that the municipal plants mentioned in the following table, forty-two in all, are free of debt:

City	Value of Plant
Sanitary District of Chicago, Ill.	$4,036,599
Chicago, Ill.	2,788,909
Logansport, Ind.	750,000
Jacksonville, Fla.	515,703
Fort Wayne, Ind.	300,000

City	Value of Plant
Owensboro, Ky.	211,000
Coldwater, Mich.	170,000
Henderson, Ky.	161,000
Austin, Minn.	85,000
Bangor, Me.	85,000
Auburne, Ind.	75,000
Peru, Ind.	65,000
Galveston, Texas	65,000
Bay City, Mich.	57,974
Whitehall, Mich.	50,000
Aurora, Ill.	46,469
Clarkson, Neb.	40,000
So. Brooklyn, Cleveland, Ohio	40,000
Paducah, Ky.	36,000
Ada, Minn.	30,000
St. Peter, Minn.	30,000
Carmi, Ill.	30,000
Appleton, Minn.	25,000
Bayfield, Wis.	20,346
Elkhorne, Wis.	29,866
St. Joseph, Minn.	20,000
Shelbina, Mo.	20,000
Wolfboro, N. H.	20,000
Solvay, N. Y.	20,000
Arcadia, Wis.	20,000
Columbus, Wis.	20,000
Thornton, Ind.	19,000
Little Rock, Ark.	15,000
Conway, Ark.	15,000
Fairfield, Iowa	15,000
Blair, Wis.	15,000
Westfield, N. Y.	12,000
St. Clairsville, Ohio	10,000
La Grange, Mo	7,500
Erie, Colo.	4,000
Bath, Ill.	3,200
Benedict, Neb.	3,000
	$9,982,546

TABLE SHOWING COMPARATIVE COST OF PRODUCING ELECTRICITY BY THE FOLLOWING MUNICIPAL PLANTS AND THE BROOKLYN EDISON COMPANY.

	Generation	Distribution	General Expenses	Fixed Charges	Taxation	Total Cost	Generation and Distribution	General Expenses and Fixed Charges		
Marquette, Mich	.50	.50	.20	.10	.0	1.30	1.20	.10	6	
Owensboro, Ky	1.10	.80	.60	..	.0	2.50	1.90	.60	5	
Jamestown, N. Y	1.12	.45	.05	.11	.0	1.73	1.57	.16	4½	
Bangor, Me	.50	.50	1.00	.0	.0	2.00	1.00	1.00	..	E
Jacksonville, Fla	1.36	.54	.32	.0	.0	2.22	1.90	.32	7	
Holyoke, Mass	1.24	.69	.14	.38	.0	2.45	1.93	.52	6	
Frankfort, Ind	.70	.50	f1.25	.0	.0	2.45	1.20	1.25	10	
Iola, Kansas	.93	a	.42	c1.17	.0	2.52	.93	1.59	4	
Detroit, Mich	1.24	.75	.12	.65	.0	2.76	1.99	.77	..	E
South Norwalk, Conn	1.23	.75	.11	.65	.0	2.75	1.99	.76	9	
Riverside, Cal		.65	.31	.13	.0	2.55	2.11	.44	14	
Grand Rapids, Mich	1.13	.89	b	.99	.0	3.01	2.02	.99	..	E
Seattle, Wash	.67	2.50	b	b	.0	3.17	..	..	8½	
Pasadena, Cal	1.13	.72	.38	.94	.0	3.17	1.85	1.32	7	
Chicago, Ill	2.25	a	.03	.0	c1.4	3.68	2.25	.03	..	E
Bay City, Mich	2.31	.50	f1.80	.0	.0	4.61	2.81	a1.80	12	
Allegheny, Pa	1.92	.72	.11	.0	.0	2.76	2.64	.11	..	E
Concord, Mass	2.30	.40	.67	1.6	.0	4.96	2.70	2.26	9	
Average Price	1.27	.74	.47	.39	.08	2.81	1.88	.88	7.7	
Brooklyn Edison Co	11.9	.98	.90	1.35	.31	4.73	2.17	2.25	12	

a Included in generation.
b Included in distribution.
c Includes depreciation.
d Included in general expenses.
e No private consumers served.
f Includes fixed charges.

Of the 259 municipal plants with a total valuation of $25,402,106, the bonded indebtedness amounted to but $8,961,579. The municipalities ordinarily undertake to create a sinking fund for liquidating the bonds as they fall due, but how seldom it is that corporations do so. The suggestion that the public service corporations should be compelled to create a sinking fund for the liquidation of succeeding bond issues is of but recent origin, and as yet has secured no considerable indorsement, though it is a matter of exceeding great importance to the public. Yet so long as our lax laws permit the continuation of the system now prevailing, bonded debts will mount not only up to the full value of the plants but to a point where it will exceed this value and will discount future earnings.

It is true that the cost of all the various municipal plants mentioned as free from debt has not been paid exclusively from earnings, but in some cases from taxation, but the time is coming when the public will recognize that it is better to pay for whatever is required outright by taxation and thereafter freely to enjoy it even unto eternity than to acquire it by means of indebtedness and pay the bill at the expiration of a long period of drain from interest charges, which are more than likely to exceed in the aggregate the original debt. In the case of municipal lighting plants, and other undertakings of a kindred character, when there are reasonable prospects of amortizing the initial cost by earnings, there is justification for incurring indebtedness, but sound finance dictates that municipalities should incur other debts only in extreme and very exceptional cases. The evil that ensues from a departure from this rule is shown in the case of New York City, where last year the interest charges on the outstanding debt were 27 per cent of the taxes raised.

To engage private corporations to do the work of public agencies offers no escape from the evils of bonded indebtedness, as may be seen by reverting to what has already been said in respect to such corporations being enamored of their debts and ever reluctant to diminish them. The substitution of the name "corporation" for the name "government" does not alleviate, for in the end the public must bear the burden. Then also municipalities are able to borrow at less interest than corporations, so that when bonded debt is incurred by them the burden is not as great as when incurred by corporations.

The greatest deterrent to municipal ownership is the fear of graft, yet the insidious pyramiding of bonded indebtedness and the watering of stock by private corporations is greater in magnitude than graft ever was. Mr. Roger W. Babson has estimated that there is $30,000,000,000 of water in the capitalization of the corporations of the United States. This means that we are now paying interest on excess capitalization to the amount of $100 per family, or one-half as much as taxes to the national, state, county, and municipal government paid on a per capita basis by the citizens of New York City, the highest taxed people in the world. The corporation is conducted for the advantage of those controlling it at any particular time, and it seldoms happens that the interests of those in control and the general public are regarded as identical, so that it is not surprising that municipal plants, which are directly contrary in purpose, being constructed and operated for the public and not for private gain, should compare therewith much more than favorably.

There can be no longer any doubt that municipal ownership is here to stay. Everything points to the absorption by the government of those undertakings which are essentially monopolies. There will doubtless be scattered cases where success will not be achieved, where the municipal plants will lapse back into private hands, but with advancing civilization and the rapid growth of our cities, electric lighting will become increasingly essential for our well-being, and it will be brought more forcibly home to us than ever that we cannot, without great jeopardy, permit interests with ends inimical to the great welfare to control it. One-half of our lives we are subjected by nature to darkness, which can be relieved only by artificial means. There is but one safe repository for a means so vital to our well-being, and that is in the hands of the people themselves.

REPORT OF THE COMMITTEE ON MUNICIPAL OWNERSHIP[1]

The question of municipal ownership to be properly appreciated must necessarily be divided and subdivided until we touch upon only those utilities that are sought by corporations who want to operate them for the municipality at a profit to themselves. It is, therefore, necessary to eliminate all municipal properties from the discussion except the revenue-earning public-service utilities.

Municipal ownership may in a sense be compared with the deposits of a bank. Unless profitably employed, these public utilities will become a burden upon the parent institution to such an extent that failure must naturally follow.

To my mind there are only two just reasons for municipal ownership of public utilities.

1. Public service at a nominal cost which would otherwise become a burden on the taxpayers: such as street lighting and lighting public and municipal buildings; water for fire protection, etc.

2. The lowest possible cost to the patron.

This last impresses me as being of most importance as it touches the greater number. And as municipalities are organized and operated only for the general good, then it follows that whatever advances the good of the greatest number is the interest of the entire community.

The modern trend of municipal government is toward a centralization of responsibility—the function of government administered by a responsible and efficient head; thus we have the idea of commission form of government and the manager form.

With such a form of government, which, though possibly not ideal, is yet as nearly so as the frailties of man may permit, why cannot the affairs of the public be conducted on the same basis as a private corporation and just as efficiently?

In discussing the favorable side of municipal ownership, we must find an example so that we may deal in facts, and leave

[1] Presented by Mayor R. M. Chapman, Greenville, Chairman of the Committee, at the Fourth Annual Convention, League of Texas Municipalities, Hillsboro, October 26, 1916. Texas Municipalities. 4: 91-4. May, 1917.

to the opposition the theoretical side of the question as to why municipal ownership is a "failure."

As a basis for this argument in favor of municipal ownership, we are using the records of the municipal plant of Greenville, Texas, for the fiscal year of 1913, not because it makes a more favorable appearance, but for the reason that more numerous reports from other cities are found for that year, and the comparisons are more easily and more authentically drawn.

The City of Greenville owns her light, power, water and sewerage plants, all of which are operated by the officials of the municipality under the commission form of government.

Those who have heretofore opposed municipal ownership, use as a basis for their argument, that when a municipality operates its utilities, some of the following conditions are bound to exist: high tax levies for repairs or maintenance; high service rates; poor service; excessive city tax rate, owing to the municipally owned utilities or plants running into such a dilapidated condition that succeeding bond issues to cover depreciation will make exorbitant rates or excessive taxation. Any one must admit that municipal ownership void of these conditions leaves but little room for the argument of the opposition.

Those who oppose municipal ownership sometimes use as a last resort the argument that when a municipality enters into the operation of public utilities it must necessarily sacrifice other lines of civic development in order to maintain the utilities properly, in serviceable condition, and to a point of reasonable efficiency.

Before entering into a discussion of the merits of the municipally owned plants of Greenville, we will first take into consideration the tax rate and the civic improvements of that city.

Greenville was reported to have 8,850 population in 1910. The Census Bureau has estimated the population for the year 1913 as 9,495 and in reflecting upon these figures one must make mental comparisons with other towns of the same population that do not own their public utilities. Greenville has 20 miles of modern paved streets, three modern brick fire stations; maintains a full paid fire department; has four handsome brick ward schools and a $100,000 high school; has one mile of ornamental street lighting system; and owns her light, power, water

and sewerage plants, and furnishes to her citizenship lights at 8 cents per kwh., power at 4 cents per kwh. maximum, and water at 30 cents per thousand gallons maximum, and this with a city tax for 1913 of $1.61 per hundred dollars property valuation.

Notwithstanding this long list of public improvements and these low rates for public service, these plants earned for themselves the necessary interest and sinking fund on their bonded debt and in addition thereto saved the city tax payers 39.27 cents on the original tax levy of 1913, reducing same from $2.00 to the amount collected, $1.61.

Whether municipal ownership is successful can best be determined by using Greenville's conditions as an example, and making unprejudiced comparisons with other cities of like population whose public utilities are corporation-owned.

Upon investigation we find that in addition to the above mentioned service from the Greenville plants they furnish to the taxpayers of the city free lights for all public buildings, such as schools, fire stations, city offices, library, and many awning lights where it is considered that the lights are more beneficial to the general public than to the owner of the awning. Under corporation ownership this service would cost the people of Greenville $13,369.20 per year, or an equivalent increase of city tax levy of 22 cents per hundred dollars property valuation.

We find further that Greenville operated 749 street lights from this municipally owned plant, for which there was no charge made against the tax payers of the city.

Under corporation ownership of public utilities, and using the average rate charged for street lighting in Denison, Bonham, and Paris, we find this street lighting service would have cost the tax payers of Greenville $21,571.20 per year or an equivalent of 38.5 cents in increased taxes per hundred dollars property valuation.

In comparing the benefits of municipal ownership with the conditions under corporation ownership, in addition to considering the increased tax for the service referred to above we must not overlook the difference in the rates charged by the corporation-owned plants and the municipal plant at Greenville. In order that this difference may be more readily understood we may reduce same to a basis of taxation.

Under the municipal ownership of the Greenville light plant there are 97,400 kwh. of current sold through meters to nearly 1,600 consumers at an approximate cost of $7,792 per month.

Under the corporation rates such as are charged at Sherman, Denison, Bonham, Paris, Tyler, and Cleburne this same amount of current would have cost the patrons at Greenville $14,610 or an increase of $6,818 per month, which is equivalent to an increase in annual taxation of $1.39 per hundred dollars property valuation.

In reviewing the above figures, after same have been reduced to a basis of taxation, we find that a more comprehensive view of the value of the municipal plant to the tax payers of Greenville can be had by making a revision of the tax levy for 1913 on the theory that Greenville possessed all of the above mentioned public and civic improvements but that her utilities were being operated under the corporation plan of ownership.

Such a revision of the budget would be as follows:

General fund	$0.30
School fund	.50
Street fund	.15
Fire department	.20
Paving and school bonds	.46
	$1.61
Street lighting	.38
Public buildings	.22
Excess of 8c. rate	1.39
	$3.60

The total difference between municipal ownership and corporation ownership of public utilities to the tax payers of the City of Greenville is $116,756.40 per year—nearly a sufficient sum to replace these plants every two years. Under such conditions, is municipal ownership a success?

What is true of the lighting systems is also true of other utilities; but the general opinion seems to be that cities can profitably own and operate their water and sewer systems, hence I have confined myself in this discussion to the lighting and power properties.

I am firmly convinced that all cities should take over their several utilities and operate them for the benefit of the tax payers.

MUNICIPAL OWNERSHIP IN AMERICA[1]

Municipal ownership is the alternative to private operation under a grant from the city. As we use the term it is confined to the street-railways, gas, electric-light, water, and telephone services. These enterprises are recognized as natural monopolies; they have certain features in common which distinguish them from most other businesses.

Mr. Tom L. Johnson, for ten years Mayor of Cleveland, and prior to his election one of the largest street-railway operators in America, analyzes these features as follows: He says:

> There exists, I believe, a safe rule to apply as a first test to an enterprise in order to determine whether it is a fit subject for municipal ownership. It may be stated as follows:
>
> No enterprise should be considered a subject for municipal ownership unless it (1) rests upon a public grant or franchise, bestowing a special privilege; (2) is of such a nature that competition cannot enter with benefit to the people at large; (3) requires a very large expenditure of capital for a plant and equipment; and (4) contemplates a performance of its functions for a long period of time.

A danger frequently urged against municipal ownership is that of corruption and an increase in the power of the political machine. Doctor John R. Commons, of the University of Wisconsin, who was a member of the special commission of the National Civic Federation to study public ownership, says on this point:

> Private corporations are compelled to get their franchises and all privileges of doing business and all terms and conditions of service from the municipal authorities. And in carrying out their contract with the municipality they are dealing continually with municipal officials. Consequently it is absurd to assume that private ownership is non-political. It is just as much a political question to get and keep honest and business-like officials who will drive good bargains with private corporations on behalf of the public and then see that the bargains are lived up to, as it is to get similar officials to operate a municipal plant. We do not escape politics by resort to private ownership—we only get a different kind of practical politics.

Mr. Robert G. Monroe, former commissioner of water-supply, gas, and electricity, under the Low administration of New York, says:

[1] From "The Modern City and Its Problems," by Frederic C. Howe. p. 165-74. Copyright, 1915, by Charles Scribner's Sons. Reprinted by permission.

Neither has New York's municipal water supply proved a political menace. Surely today it is neither a pregnant source of official corruption nor a potent adjunct to any political machine. Under the civil service laws municipal employees are practically less subject to political control than the employees of the average public service corporation, which is constantly compelled to make and give places to political workers.

As a matter of fact, the most serious criticism of private operation is the political activity of the public service corporations. Not only is this the chief cause of corruption in the city, but the employees of the private corporations are quite as active in city politics as are those of the municipality itself.

An investigation of public ownership by the National Civic Federation showed the extent of over-capitalization by private companies as compared with municipal plants. The outstanding securities of the private electric-lighting companies in 1902 amounted to $271.51 per kilowatt-hour unit, while the capitalization of the 815 municipal plants was only $111.89 per kilowatt-hour unit. Much of this excess capitalization in the private plants is fictitious, it is monopoly or franchise value. It is a capitalization of the exclusive grant given to the company by the community. And as the city grows the earning power of the company responds to its growth. This, in turn, permits still further increase in capitalization and dividends. Under municipal ownership, on the other hand, growth in population, with the consequent increase in earning power, permits a reduction in rates or improvements in the service. The social value is returned to the community itself.

Similar comparisons of private and public water plants would disclose the same overcapitalization of the former as would a study of gas and street-railway companies.

The water-supply has been generally municipalized in the United States. An investigation by the federal government in 1905 showed that 113 of the 154 cities of over 30,000 inhabitants owned or operated their plants, while in 1912 of a total of $839,205,681 invested by cities in business undertakings $475,544,000 was invested in water-works. Nearly all the large cities, with the exception of Indianapolis, New Haven, Omaha, Denver, and San Francisco, own their water-supply, and within the last few years Omaha, Denver and San Francisco have decided to either take over the existing companies or construct their own plants. There is no tendency to return to private operation in any of the cities; in fact, the propriety of public ownership in this field is rarely disputed.

Municipal water plants generally charge lower rates than do the private plants; they are more permanently constructed, offer better fire and domestic service, while the health of the cities owning their plants is generally better than where the private plants obtain.

Mr. Robert G. Monroe says of the rates and charges of the New York water-supply:

> Had the water supply been in private hands, financed upon parallel lines and similar business methods to those pursued by the private lighting monopoly, the citizens of New York would be paying between eighteen and twenty million dollars a year for water, instead of between five and five and a half million, the annual cost under public ownership.

One of the most ambitious water-supplies of any city is that of Los Angeles, Cal., which city is constructing a 240-mile aqueduct to bring the supply to the city, at a cost of $24,500,000. The mains skirt 130 miles of the Mojave Desert and will irrigate 135,000 acres of dry land. Practically all of the work has been done by the city itself, by the direct employment of labor under the direction of competent engineers. The water power will be used to develop an electric-power plant estimated to produce 120,000 horse-power, to be delivered at the city limits for domestic and business uses. This is also to be operated by the city. The undertaking was approved by a referendum vote of the citizens in 1905.

Municipal ownership has developed rapidly in the field of electric lighting. In 1885 but 9.5 per cent. of the electric plants were under municipal control, while in 1906 24.4 per cent were publicly owned.

In 1902 there were 815 municipally owned electric-lighting stations and ten years later there were 1,562. In the former year the income was $6,965,105, and in the latter $23,218,989, or an increase of 233.4 per cent. During the same period the horse-power generated increased by 249 per cent. The total number of private consumers of the public plants grew in the same time by 347.4 per cent.

Among the large cities maintaining plants are Chicago, Detroit, Cleveland, Memphis, Allegheny, Grand Rapids, Seattle and Pasadena. Cleveland has recently authorized $2,000,000 in bonds for the erection of an electric-lighting plant in connection with its water station. Prior to the erection of the public plant in Detroit a private company offered a ten-year contract for street lighting at $122.20 per arc light. The Detroit commission gives

the cost of municipal operation, including taxes, interest and depreciation, at $55.28 per lamp.

In addition to water and electric-lighting plants in the cities of New York, Baltimore, Boston, Philadelphia, and several of the Pacific Coast cities have constructed municipal docks. New York City has invested immense sums in its subways and maintains ferries connecting the boroughs. Some of the smaller towns maintain theatres. Gas plants are owned by a number of cities, while public garbage plants are maintained by a few. Cleveland, Toledo, and Detroit have been prevented from entering on the ownership of the street-railways by restrictions in their charters and the limitations on their borrowing powers. In each of these cities municipal ownership will probably be undertaken at no distant date. A number of western Canadian cities own their street-railway systems, and the next few years will undoubtedly see a rapid increase in this field of municipal activity.

San Francisco is the only American city that has ventured into the field of municipal ownership of its street-railway system. In 1913 it opened the Geary Street line, with over seven and one half miles of double track. The same year $3,500,000 was voted for extensions. When the present construction work is completed the city will be in possession of a total of about nineteen miles of track. The first year's operation was necessarily experimental, but it showed a net income, over and above operating expenses, of $153,000. From this was deducted the interest on the debt and taxes, while $80,000 was set aside for depreciation and accidents. Describing the first year's experience of operation, a writer in the National Municipal Review says:

> The municipal service has not had any noticeable effect in eliminating the strap hangers. It remains true of public as of private roads and the standing passengers pay the profits. The employees, however, are polite and accommodating, and there is an evident effort in the management of the road to suit the public convenience. The men appear well content, receiving a wage of three dollars a day for eight hours of work. The rate paid on the private road is from twenty-five to thirty cents an hour, depending on length of service. The men are selected by civil service examinations and hold during good behavior. They may, however, be dismissed without trial. Altogether, the people of San Francisco are well pleased, thus far, with their experiment in municipal ownership of street railroads. It has not proved the gold mine that some of its over-enthusiastic promotors promised. But it has improved service, bettered the condition of the working force, paid its way, and given promise of securing the extensions that could not be secured under the regulations imposed on private ownership.

Private ownership under regulation is frequently urged as a means of securing the advantages of municipal operation with-

out the attendant evils, such regulation to be either by the city or by the State public service commissions. Experience has shown, however, that it is the attempt to regulate that lures the corporation into politics, and the more complete the regulation the greater the effort to control either the city or the commission. In addition, orders when made are not obeyed. They are objected to at hearings and when finally entered are resisted in the courts on the ground of confiscation or unreasonableness. The courts are filled with cases of this kind, many of them carried to the Supreme Court of the United States, and, even if the ruling is finally upheld, years of delay are secured during which time the prevailing rates and charges are maintained. Moreover, regulation can deal only with a limited number of questions, and, most important of all, it cannot experiment. And it is through the freedom to experiment that economies and efficiency are brought about.

The conflict of motive between private operation interested in profits and public operation interested in service cannot be harmonized by regulation any more than by competition. This is the experience of European cities where private operation under exacting regulation was exhausted before the policy of ownership was entered upon.

The city of Cleveland has had prolonged experience in the effort to regulate private ownership of the street-railways. For nine years the effort was made to reduce street-railway fares from five to three cents. Ordinances were passed by the council which were immediately carried to the courts, where they were delayed for years. In all, over fifty injunction suits were filed against the city and a score of elections held before a compromise was reached under which the company accepted a valuation of the property upon which dividends of 6 per cent only were to be allowed. Rates of fare were fixed first at three cents, with the right to increase them if this did not produce sufficient income. The settlement was finally reached in 1910, and during the intervening years the fare has remained at the initial rate agreed upon, three cents, although an additional charge of one cent for a transfer was made for a short period. As a result of the reduction in fare, car riders have been saved $2,500,000 a year. Similar reductions in fares have been made in Toledo and Detroit, in which cities the community has refused to renew the franchise on any terms,

preferring to wait for municipal ownership rather than accept any terms which the company has offered.

The most important gains from municipal ownership are not financial but political and ethical. Through ownership the city will be freed from the conflict of interest which now divorces much of its talent from the public service. This conflict remains even under regulation; it becomes most acute when regulation is most efficient. Partisanship is kept alive to be used against an administration which interferes with these interests, while the press is subsidized and the agencies of public opinion controlled to maintain the invisible powers referred to in the preceding chapter. And this conflict can only be terminated when the cause of it is removed and the city itself is possessed of the privileges in whose preservation the wealth and power of the city is interested. Then the talent of the city will be free to want good government. Men will then be in a position to aspire to public office and promote the city's well-being. In addition the city will become such an important agency, the activities which it owns will be of such transcendent interest, that men of power will desire place not only in administrative positions but in the council as well. Further than this, a city which serves its citizens in many ways, which touches their lives daily and hourly, will awaken interest on the part of all classes. There will be an economic and social nexus between the voter and the city which will supply the strongest possible motive for good government.

MUNICIPAL OWNERSHIP IN CALGARY[1]

In pursuance of the organized campaign in the United States against municipal ownership by public service corporations, statements have been published reflecting on the management of the municipal street railways of Calgary, Alberta. The following reply to these criticisms from Mr. P. S. Fitter, Publicity Commissioner of Calgary, appeared in the January issue of The Canadian Municipal Journal, published at Montreal:

The extracts from the newspaper which you enclosed are on a par with those circulated through the American press with respect to the telephone rates in Alberta, and are cunningly

[1] Public. 18: 60-1. January 15, 1915.

and skilfully prepared and placed with the news agencies that make a specialty of dealing in cooked up information.

Dealing with the items seriatim, the first is the statement that the municipal street railway lost $606,284 on nine months' working. This is a lie, a fabrication, an untruth, the undiluted essence of story-telling, and several other things that I can only fittingly express in the idioms of the Canadian West.

As per city comptroller's statement, there is a deficit shown on the eleven months' working of $44,284, and for nine months there was a loss of $37,000. Against this, the four years' working of the street railway built up a surplus of $300,000 over and above all fixed charges and liabilities, which can be called on to deal with any deficit.

An item in the said newspaper reads: "Operation of the road does not furnish sufficient funds for interest on debentures, depreciation, or sinking fund." Up to date, all fixed charges have been dealt with, and the loss this year for eleven months is calculated on the basis of interest on debentures, depreciation, and sinking fund having been provided for a like period.

"During September," runs the next item, "there were 404,201 less fares collected than during the same month last year." This is correct, but the altered conditions were promptly dealt with, and the service was curtailed and has been curtailed still further. The public very quickly started to economize, following the tightening up of the money markets, with a resulting loss of revenue to the street railway.

It is the last item that dimly suggests something: "With every probability of the deficit increasing, the citizens are considering what action should be taken to minimize the impending losses." There is one action the citizens will not consider, and that is the disposal of the particular franchise and utility under mention to any branch of municipal blood-sucking parasites. There will be no loss if the citizens are satisfied with the service that the heads of the department are prepared to give them. The loss up to the present has been incurred in trying to give the citizens a good service, despite the fact that several of the routes were not paying.

The small loss this year will be on operating expenses, but the citizens have been supplied with a service second to none in Canada at this period of financial stress. As a matter of fact

the loss covers two lines only—the one to Bowness Park which the city has to keep in operation, according to the agreement entered into with a real estate firm in consideration of a park being handed to the city, and the other is the line to the Ogden car shops, which is losing $50 per day.

Calgary is giving the cheapest fares in America. School children, up to sixteen years of age, are carried at the rate of ten journeys for a quarter, even if the journey is right across the city—over eight miles. It is two and a half cents to the municipal market and the same fare back again, so that anyone living out at Ogden can travel nine miles for five cents, and do their marketing in between. Workmen during stated hours can travel at the rate of three cents a trip.

Past profits on the utilities generally have been such that it is intended to lower the water rate and the electric light rate both next year, owing to the fact that huge surpluses have been piling up, the provision for the depreciation in the waterworks department having been found too heavy.

MUNICIPAL OWNERSHIP VERSUS REGULATION[1]

One of the first reasons for this rising tendency toward the municipalization of the city's public service lies in the extreme laws that have been passed in certain states, such as Illinois, Indiana and Pennsylvania, depriving cities of all effective powers over their own utilities. Thus in the Pennsylvania law it is provided that any ordinance or municipal franchise before being effective must first have the approval of the public service commission, and that any municipal corporation must have the commission's approval before it can "acquire, construct or begin to operate any plant, equipment or other facilities for the rendering or furnishing to the public of any service of the kind or character already being rendered or furnished by any other public service company within the municipality. And not only must all contracts or agreements between public service companies and municipal corporations be approved by the commission in order to be valid, but any public service company "may apply

[1] From article by Clyde Lyndon King. New Republic. 1: 12-14. November 28, 1914.

to the commission, before the consent of the local authorities has been obtained, for a declaration by the commission of the terms and conditions upon which it will grant its approval of such contract or agreement if at all," a power not enumerated to the city. Thus the city is placed in the position of having to appear before the commission to urge lower rates or better service standards than are provided for in a contract to which it has just affixed its signature. Moreover, the rulings of certain commissions were, and could be, put in evidence, which, to those in charge of public plants, mean unfair discrimination to the private competitors of public plants and illiberal treatment of those in charge of them.

The regulation by a state commission of municipal plants or of private plants operating wholly within a city, is just as objectionable to city electorates and city officials as was the regulation of police and fire departments and public works departments by state-appointed boards such as were prevalent in the late '80's and the early '90's. If the temper of the Mayors' Conference can be taken as a guide, urban residents are growing to be just as impatient regarding state control over utilities local in their operation, as they grew of state administration of city, fire, police and public works departments. No strenuous objection was generally urged to state control over utilities intercity or inter-county in their operation, but it was urged strongly that to take the control of municipal utilities out of the control of the electorate that used them and knew their standards of service and rates, and to place it, in effect, in a state electorate wholly unfamiliar with local conditions and services and irresponsive to local demands, is detrimental to every fundamental interest of municipalities. The power to appoint state regulative commissions is a more valuable asset to the party in power than was the power formerly vested in the state governor to appoint police boards, fire boards and commissioners of public works.

The second reason for the tendency toward the municipalization of the city's utilities is the growing belief that valuations fixed by state regulative bodies have been excessive, and that the theories of valuation now being urged before these boards or adopted by them will lead to even higher valuations in the future. There is a basic reason why valuations fixed by public service commissions tend to be higher than those

fixed by the courts. The interest of the courts is to prevent confiscation of property. Public service commissions, on the other hand, have not only to protect property, in order to prevent their rulings from being overthrown by the courts under "due process of law" clauses, but they must also place valuations at a point, and place returns high enough, so that investments will be attracted to their state. High valuations, however, will lead to public ownership, because in the public mind one test of a fair rate and a fair valuation is what a city-owned and operated plant can perform the same service for. When valuations for rate-making purposes are higher than rates based on the cost of a new public plant, the urban public, ever interested in the millions of dollars it pays for its utility services, will inevitably decide that it is cheaper to own its own plant. On the other hand, it is equally true that if valuations are made so low as to lead ultimately to poor service and inadequate equipment on the part of utility companies, there will then be a demand for public ownership in order to secure better service and adequate equipment.

Regulation to be permanent must, therefore, in the long run be based on values neither much higher than the cost of a new public plant, nor lower than will warrant adequate service and equipment. Valuations thus fixed will so limit returns as to make the private utility owner care little whether his returns are expressed in the moneys received from the sale of his plant to the public, or from his own ownership and operation. In time, therefore, effective regulation will, in this country as it did in Germany, make utility owners willing to sell out to the public at fair valuations.

Finally, the rising tide of adverse criticism of state regulation and the rising sentiment in favor of public ownership are due to the fact, even more apparent to city officials, that fair rates and fair service standards are most certainly assured to that city which has full legal and financial option to build and operate its own plant at will. To any class of utility owners, freedom from control by the city electorate means license to disregard the will of that electorate. This independent or indifferent attitude on the part of the utility owners, a spirit that is not shared, be it said, by all or necessarily a large portion of utility owners, will react to convince the city electorate that its best interest will be served by owning and operating its own

utilites. For we must remember that no other class of municipal service is so near and vital to the urban resident.

The expression of a favorable attitude toward public ownership and operation is, therefore, according to the Mayors' Conference, the result (1) of unnecessary limitations placed on cities by extreme state control, (2) of the difficulty of arriving at a valuation that is acceptable both to informed urban citizens and to that class of utilities whose capitalization has been unduly "watered," and (3) of the need for the alternative of public ownership and operation to assure fair rates and adequate service standards from the city's serving companies.

MUNICIPAL OWNERSHIP OF STREET RAILWAYS IN THE DISTRICT OF COLUMBIA[1]

The question involved in the bill is of great importance to the people of the District, because of conditions peculiar to the companies involved, the nature of the service rendered, the rate of fare charged, and the political status of the people affected. The bill is also important because of the general principle involved. The chief, and in fact the only considerable, contention against the bill in committee was that the policy of city ownership of a street car system is unwise and unjustifiable. This report, therefore, will first consider that question, although there are additional and specific reasons for applying the principle of the bill to the street railway situation in the District of Columbia.

In the performance of any service which must necessarily and properly be performed by an institution enjoying the sole right to serve the public generally, the natural law involved in competition can of course play no part. The ideal street railway system of any municipality should have the exclusive right of supplying passenger transportation service, and we are therefore confronted with the problem as to whether this service should be rendered by a private institution, on the one hand, to which the municipal government grants an exclusive right to occupy, with tracks and cars, the common property of the people—that is, the streets—or, on the other hand, by the munici-

[1] From United States, 63d Congress, 2d Session, House Report 917, of the Committee of the District of Columbia. July 14, 1914.

pal government itself, which is the common agency of all the people, who are both the users and owners of the streets. Unless human nature has changed since this question has arisen, in order to substantiate the claims of the advocates of private monopoly, the prime and really the only motive in private enterprise is profit. The greater the profit the more successful is the business from the standpoint of the person or persons who own the business. The greatest profit is derived by exacting the highest price which the person desiring the service or merchandise is willing to pay in order to get it, or by giving as little service or goods as possible for what the buyer can pay, which amounts to the same thing.

In all ordinary kinds of business the buyer is protected against the avarice of the seller by competition. If one person or company will not sell the article or service desired at a reasonable price, another who is anxious for the trade will do so, and consequently no one dealer can procure an unreasonable price for his wares. This wholesome check, resulting from competition, does not exist in the case of a street railway company. Persons desiring to ride from one part of the municipality to another must use the one street railway which traverses the course over which they must travel or put themselves to the great expense of hiring an individual conveyance. The realization of the impossibility of competition in the street railway service caused municipal authorities, at the very beginning of street railway history, to make stipulations as to the fares and service in the first permits or franchises, in order to prevent the extortion and discrimination which private individuals would practice if given the exclusive right to operate a street railway in the streets. The natural tendency on the part of persons desiring to operate a street railway is to induce the municipality to grant the right in the streets on such terms as would enable them to procure the greatest possible profit. Public officials have been offered and sometimes have accepted every sort of reward to grant the private person or company certain privileges. When temptation failed, threats have been resorted to—sometimes successfully and sometimes not.

When public officials have undertaken to adopt or enforce measures which might lessen the profits of the street railway every conceivable method has been adopted to resist the restrictive measure. While not desiring to encumber this report

with too much detail, it is perhaps well to refer to a few concrete examples where rewards such as referred to have been advantageously bestowed. Gov. Hazen S. Pingree, of Michigan, says that the Citizens Railway Co., of Detroit, "literally owns the council, body and soul." They would pay $3,000 for a member, and actually offered to buy the mayor for $75,000. See Facts and Opinions, by Hazen S. Pingree, pages 30, 31, 86, and 122. In New York City the Broadway surface franchise was secured by bribing councilmen, who rejected the offer of the Cable Railway Co. to pay the city a bonus of $1,000,000. It was shown that aldermen were given $20,000 apiece, and that the total expense of this nature was about $500,000. (See Final Report Commissioner of Railroads relative to Broadway Surface Railroad Co., New York, S. Doc. No. 79 (1886); People *v.* O'Brien, 111 N. Y.) The San Francisco case is so fresh in the minds of every one that it is unnecessary to state it in detail. The experience of Philadelphia, Boston, and practically every large city has been similar to the cases just cited. Not only are methods such as those referred to adopted, but various other devices are employed for the purpose of increasing the profits of such private enterprises.

Overcapitalization is one of the time-worn methods employed, and is well exemplified by the companies operating in the District of Columbia, more detailed discussion of which will be found in another part of this report. Another means very much employed to procure profits greater than that authorized by law are inaccurate and often false accounting, suppression of facts, and misleading statements. The Public Utilities Commission of the District of Columbia have spent a great deal of time during the past year in an ineffectual effort to determine the cost of producing the electric power necessary to operate one of the street-railway systems of Washington. That same company was unable, or at least stated before the subcommittee of the Committee on the District of Columbia that it was unable, to give even an approximate estimate of the cost of construction or reproduction of its property.

As already suggested, the tendency of a private street railway company is to minimize the expense of operation, and therefore to deteriorate the service, in order to increase its profits. It is a common saying among street railway managers that "strap hangers make dividends." Schedules are reduced in

order to reduce expense. The employees of private companies do not receive as fair treatment as municipalities accord them. This is so not because of any ill feeling on the part of the private employer, but because of the desire to keep down expenses and increase profits. The average wage of motermen and conductors in Washington is about 23½ cents per hour, and they are required to work 11 hours per day. The minimum wage paid by the San Francisco municipal street railway for the same class of labor is $3 for eight hours per day. It would seem, however, that one of the most serious evils resulting from the private ownership and operation of public utilities is the corrupting and weakening of municipal government. Most persons naturally want men in office who hold views similar to their own, and who will conduct themselves in office in such a manner as will promote their interests. While not even asserting that men will ordinarily do wrong to advance their own interests, still it is certainly true that men naturally desire to further their own interests, and to have and maintain such conditions as are most favorable to the advancement of such interests. This fact causes men who must procure special privileges in order to conduct their business, as is the case with every public utility, to exert themselves toward the election or appointment of men to public office who will be favorably disposed to the interests of the owners of public utilities—in other words, to those who help them to procure office.

Men who can be relied upon to do the bidding of any special interest, either because they owe their election or appointment to that interest or because of some regard offered for compliance with the request of such interest, are certainly not men of strong moral fiber and are generally weak and inefficient. Consequently we have not only mal-administration by such public officials as to the public utilities, but also an inefficient administration in regard to all other matters, for men who are weak enough to be controlled by such special interests have not the force and sense of justice to qualify them to administer the ordinary affairs of government impartially and efficiently. Men who are weak enough to bargain away the people's rights for political support received before election, or material reward offered after election, are not the kind of men who have the clear vision and the high ideals necessary to enable them to perform the duties of public office in a satisfactory manner. In this

connection we call attention to the testimony of Mr. Delos F. Wilcox, until recently chief of the bureau of franchises in the first district of New York, expert employed by many of the larger cities of the United States, and author of a recent work entitled "Municipal Franchises." We quote the following from the testimony of Mr. Wilcox:

> But the fact remains that in most cases the public utilities of the city, sooner or later, sometimes all the while, have been directly interested in keeping the government inefficient, because they have had tremendous interests at stake; they wanted to get franchises or special additional privileges from time to time. They can not get them on their terms, unless they can have weak men in the council. They go out and directly or indirectly often put up contribution money and in various other ways get a weak council elected, and a weak council creates an inefficient government everywhere. So that, although these corporations have no motive for having a bad police system or an inefficient school system, or anything of that sort—and, in fact, the same men should be working very hard to clean up the city government along those lines—nevertheless, in so far as a special interest finds it necessary and finds itself able to tamper with the government for its own special advantage, in that same way and to that same extent, it weakens the government and destroys its efficiency in all other lines. And I think it is quite generally acknowledged by those who have studied carefully the development of city conditions, city politics, and city civic reform in this country that a great deal of the bad conditions that have existed have been the result, at least in part, of the work of public utility companies, directly or indirectly, through their relation with the city government, seeking their special privileges, which is a matter of profit to them and which they will continue to seek.

Regulation is now constantly urged by the defenders of private ownership as the proper remedy for the evils which have invariably accompanied private ownership of public utilities, and it is somewhat amusing to know that the private owners of public utilities are the most eager and vociferous in their demands for regulation. It seems to be assumed that regulation was never attempted by public authority during the early history of public utilities. The fact is that from the very beginning public utilities were subject to certain legal restrictions. The terms of the franchise, the traffic regulations, etc., were all efforts at regulation, so that what the advocates of regulation and particularly the public utilities themselves really propose is just a little different form of regulation. Practically every objection which has been shown to apply to private ownership and operation of steel railways under the plan of controlling by franchise and traffic regulation, applies to the later methods of regulation. It is quite as natural for those who must use the public property to conduct their business, as the street railways must do, to make every effort possible to prevent such regulation from diminishing their profits, as it was under the old system of regulation. They are just as anxious to have mem-

bers of utilities commissions appointed or elected, who are satisfactory to their interests, as they were to have councilmen or aldermen who were satisfactory to them. They support men who can be counted upon to do the regulating to suit their (the utilities') interests. The fact is that the change has been largely a change of name. The regulating body is now generally called a public-utility commission, whereas it was formerly called a council or board of aldermen.

In this connection, however, it is interesting to note one essential change upon which the public utilities are insisting, and that is the transfer of the regulating authority from local to state officials. This is very significant. It removes the proceeding, for the determination of the public policy regarding the local street railway, electric light, and other utilities, from the authorities of the municipality—the people of which are the only ones affected by the determination of such proceeding, and who best understand the question involved—to a state board, in the election or appointment of which the people of the municipality have very little voice. The result is that the state board is much less responsive to the will of the people of the municipality, who are the only ones directly affected. The danger of a change from municipal control to state control was well illustrated by the Cleveland street railway controversy, which covered a period of about nine years, beginning in 1901. The people of the city elected Mayor Johnson four successive terms and a council in sympathy with him three successive terms on the issue that street cars should be operated at a flat 3-cent fare. The company immediately began to obstruct the city officials by all kinds of litigation. The total number of injunction suits instituted by the street railway company amounted to 54. One of these was a suit in which it was contended that the government of Cleveland and every other city in Ohio was illegal, and although the Supreme Court of Ohio had many times before held that these city governments were legal, they nevertheless, in this instance, held the city government of Cleveland to be illegal, and consequently the acts of the mayor and council of the city of Cleveland in granting franchises to competing low-fare companies were void and of no effect.

If there had been at that time a state public utilities commission, with authority to decide the controversy between the street railway company and the people of Cleveland, there is

no doubt as to what would have been the result. The political party in control of the state government at that time was dominated by the street railway interests of the state, and such a commission at that time would have determined the Cleveland street railway controversy very abruptly, just as the state board of review invariably nullified the efforts of local assessing authorities to put the property of large interests upon the duplicate at a fair valuation. We cite this as simply one example of the very natural tendency of a privately owned public utility to resist in every way possible every effort to regulate them in any way which will seriously interfere with their profits, and also to show the tendency of commissions who are not solely responsible to the persons directly affected by their decisions.

The history of regulation has been marked by constant resistance, such as that just referred to, against every important order or measure for the purpose of accomplishing anything substantial in the way of control.

Without attempting to catalogue any great number of such cases, we shall call attention to one or two other of the more important ones.

The Cullom Act to regulate interstate commerce, passed in 1890, was followed shortly afterwards by the Spokane case, which was decided by the Interstate Commerce Commission in favor of the city of Spokane. The case was then taken to the courts where it remained for a long time, with the result that the fourth section of the law was finally declared unconstitutional.

The Dolliver-Hepburn Act, which was passed in 1906 to meet the difficulty in the Cullom Act, and the city of Spokane filed a case similar to that filed by it under the Cullom Act, but the main question involved in the case has not yet been decided.

Mr. T. L. Sidlo, commissioner of franchises of the city of Cleveland, in his testimony before the subcommittee of the Committee on the District of Columbia, while discussing the regulation with particular reference to Cleveland, expressed himself as follows:

> I think it is generally regarded as the best regulatory settlement in the country to-day. The two settlements most frequently referred to are the Cleveland settlement and the Chicago settlement, and I think the public-utility experts generally consider the Cleveland settlement the preferable one of the two.
>
> Mr. CROSSER. How has street railway regulation worked in Cleveland?

Mr. SIDLO. It has worked as well as regulation can work. By that I mean to say that the city's rights have uniformly been exercised, the city has got to a certain extent the type of service that it wishes, which is the main thing, and a low rate of fare; but beyond that it has not got the intimate control and management of the property that is necessary to the obtaining of the best service and the lowest rate of fare, and the general control over the operation of the street railroads. In other words, in my judgment, regulation in Cleveland has merely meant a kind of veto power over what might be regarded as unjust treatment of the public. But, beyond doing that it has not accomplished anything permanent, and this has been brought about by virtue of the fact that regulation can not begin to produce results unless it provides for such machinery as will enable the city to watch every employee of the company, scrutinize every expenditure that is made there for permanent property and equipments, or permanent betterments, or to enable the city to know that waste and extravagance are not being practiced by the operators of the property. My meaning is this, that in order that the city be absolutely sure that it is getting value received, that every dollar that is being expended in the operation or the improvement of the property is bringing back a 100 cents' worth of value, it would actually have to have the power of expending that money, or else provide for such elaborate machinery as would practically mean a duplication of the work of the various officials and operatives of the Cleveland company. And that, of course, is out of the question. Now, I make that assertion, based on the experience that I have had with our plan of street-railroad regulation, and the facts that I have been able to observe since it went into effect four years ago. And it is a settled conviction with me that, although regulation has worked as well as it can under our present plan, it is far from being a happy and permanent solution of our railroad problem.

This is the conclusion reached by one who has been actively concerned with the most stringent system of municipal regulation in force in the United States at the present time.

From the standpoint of the public, for reasons already given, local regulations of municipal public utilities is safer and better than state regulation. Of course privately owned public utilities prefer state regulation of municipal public utilities, because they realize that state commissions will give them more favorable terms. The dislike of municipal regulation of public utilities was very frankly expressed in his testimony before the Committee on the District of Columbia by Mr. Clark M. Rosencratz, counsel for the Milwaukee Electric Railway & Light Co., the Milwaukee Light, Heat & Traction Co., the Wsconsin Gas & Electric Co., and various other companies, and who appeared before the committee for the American Electric Railway Association. The following appears in the record of the hearings before the committee, page 153:

Mr. CROSSER. Then, you do not believe in local control?
Mr. ROSENCRATZ. I do not believe in that sort of control.

Page 157:

Mr. ROSENCRATZ. The trouble is that you have not the control sufficiently removed from local influences.

We are therefore not compelled to rely upon the supporters of public ownership for proof of the fact that the privately owned public utilities are seeking to have control of the local public utilities removed from the people who are affected by them to a state board. Moreover, it is perfectly natural that this should be so, for the further control of a local street railway is removed from the people who are directly affected by such control the less will their wishes be regarded.

Upon this phase of the subject we quote from J. Alden Smith, dean of the graduate school, University of Washington, in the Annals of the American Academy of Political and Social Science (vol. 53, No. 142, May, 1914, pp. 87 and 88, also 93):

> It is not, however, merely a question of placing this function in the hands of that government agency which has most power and prestige behind it. For the power to exercise a particular function is of little consequence, unless there is an adequate guaranty that such power will be exercised in the interest of the local public for whose protection it is designed. Here is where we find the weak point in this new program of exclusive state control.
>
> A state appointed commission, theoretically responsible to the entire state, may be as satisfactory a device as it is possible to secure for the purpose of regulating utilities in which the entire state has a direct interest. But when such a commission is clothed with the power to regulate utilities that are purely local in character, this guaranty is in a large measure lacking. A state commission, in exercising the power to regulate local utilities, can not be regarded as responsible to the state in the sense that it is responsible when exercising a power in which the whole state is directly and vitally interested. In the former case the commission is very largely in the position of an irresponsible authority. The community or communities directly affected by its acts lacks the power to control it. It is a well established principle of political science that to insure an efficient exercise of a given power, it should be lodged in some governmental agency directly responsible to a constituency that would be benefited by having it enforced. It is for this reason that exclusive state control of local utilities fails to meet the requirements of democracy. In so far as it substitutes an irresponsible for a responsible control, it strikes at the foundation of that essential of democracy—local self-government.
>
> Some of the arguments advanced in the support of this policy of exclusive state control indicates an attitude of mind more or less unfriendly to municipal democracy. The suggestion that public-utility corporations can not expect fair treatment at the hands of the local communities which they serve is virtually an assertion that the basic principle of popular government is wrong. If the people of a local community are to be denied all power to regulate local public-utility corporations merely because they would be benefited by effective regulation, it would also be true that the state as a whole should not be trusted with the power to regulate corporations in the control of which the people of the entire state are interested. The same line of argument would deny to the Federal Government the power to regulate railways and trusts. It is really a demand that the power to regulate in so far as it applies to local public utilities be placed beyond the control of the local public.

Page 93:

> The progress in recent years toward municipal democracy has made public ownership a more advantageous method of dealing with the public-utility problem. With the extension of municipal activities in this direction local government would acquire an importance which it has not had in the

past. The effort now being made by private corporate interests to tie the hands of cities in relation to public owned utilities will, if it succeeds, be the most effective blow yet directed at the principle of municipal home rule.

Upon the same subject we quote Pond on Public Utilities, section 577, page 644, as follows:

> Failure of regulation necessitates ownership by municipality. The practical justification for municipal ownership of municipal public utilities is the failure commonly experienced under any other form of regulation and control to secure satisfactory service at a fair uniform rate. Naturally the purpose and the chief motive of the privately owned municipal public utility is to secure the largest possible return on its investment, while the motive of the municipality in furnishing such service by its own plant is not primarily selfish or mercenary beyond the point of making the business self-sustaining, its chief object being rather to furnish efficient comprehensive service to its inhabitants at cost.

Mr. Delos F. Wilcox on "Effects of State regulation of public utilities" in volume 53, No. 142, of the Annals of the American Academy of Political and Social Science, at page 75, says:

> Generally speaking, however, the popular prestige of public-service commission is waning. The people are disappointed in the results obtained for the money spent, and a great many are coming to fear that the commissions as organs of government are primarily organs of the public-utility interests to protect themselves from the mosquito bite of rampant democracy. At the same time there is a noticeable revival in the movement for municipal ownership and a strengthening of local resistance to the practical abrogation of municipal home rule as it relates to public utilities.

The fundamental cause for the failure of the later form of regulation, as in the case of the earlier methods of regulation, is the natural and unavoidable antagonism between the interests of the private owner of public utilities on the one hand and the general public on the other. The private owner's natural tendency is to procure the largest amount of revenue possible for the least service necessary. The publicly owned utility's purpose is to furnish the best service possible at the lowest cost.

Attention has already been called to what practically every one concedes to be a correct principle, viz., the desirability and indeed necessity of having in a municipality but one street railway system, having the exclusive right to furnish the street railway service. We have pointed out the objections and the dangers of granting such monopoly right to a private individual or company, and shall now consider the question of municipal operation. The municipality is not concerned in earning a profit from its street railway system, but is concerned only in operating the system, so as to furnish the best service possible at the lowest price, which will enable it to pay expenses. So far

as the public official in charge of a municipally owned public utility succeeds in providing the best service at the lowest price, just so far is he a successful man in the eyes of his employer. His only motive is the desire for the approbation of the general public, and this can be procured only by serving the best interests of the public. According to his success will be his reputation, the certainty of employment, and the increase of his compensation toward the maximum for the kind of work in which he is engaged. There would be no corruption and scandal in connection with efforts to procure special privileges or to resist governmental restrictions, because the municipality requires no special privilege and has no other restrictions than those self-imposed. It makes and obeys its own law in regard to the operation of its own street railways. Experience shows what should certainly be naturally expected, that the rates of fare of a municpally owned street railway are materially less than those of the privately owned systems. There are no big dividends to pay as a return on the capital invested, but instead usually a very low rate of interest. There is no overcapitalization upon which either dividends or interest must be paid. There are no large promoters and attorneys' fees to be paid for lobbying or for fighting for or against legislation.

There are but two municipally owned street railway lines in the United States, so far as we know. There is, however, a municipally owned belt line railroad in New Orleans, which is operated very successfully by the city.

The municipalities owning street railroads are Monroe, La., and San Francisco, Cal. Monroe, La., is a city of only a little over 10,000 population, which has owned its street railway system from the time of its establishment. It has 9 miles of single track. This street railway has been successfully operated from the beginning, and during the year of 1912-13 made a net profit of over $40,000. The rate of fare charged is 5 cents. The city of San Francisco began the operation of the municipal railway (Geary Street line) on December 28, 1912, but it was only partially operated for the six months immediately following. It nevertheless showed at all times a handsome profit. In December, 1913, the same city acquired the Union Street car line. Each of these lines is producing a surplus of about $15,000 per month, or a total of $30,000 per month. The total cost of the property, including 16 miles of single track, with

140-pound rails, specially designed steel cars, magnificent car barn, with practically every kind of convenience and comfort for employees, was $1,657,251.38, or less than $104,000 per mile. A minimum wage of $3 per day of eight hours was paid to laborers employed in constructing the Geary Street line. The minimum wage paid to operatives employed by the municipal roads is $3 per day of eight hours. The rate of fare is 5 cents, with a half-fare rate for children during school hours. Transfers are accepted from and issued to other lines.

The chief and really the only argument of any consequence urged against municipal ownership is that machine politicians would control the employees of a municipally operated street railway to perpetuate themselves in power. It must be remembered, however, that the city administration would be held responsible for the conduct of the street railway system. That being true, it would be a policy very dangerous to the political welfare of the administration in power to employ incompetent men to operate the street railways. If the service should be inferior as a result of employing such men, the city administration would be blamed for it, and suffer at the next election. If inefficient employees caused an unnecessary increase in the cost of the operation, the city administration would be held to account. The British cities have not found any difficulty with this question. In their report to the National Civic Federation of their investigation of this matter in the British cities, Prof. John R. Commons and J. W. Sullivan present no material evidence of the use of political influence in securing employment for supporters. They found one instance where a Glasgow councilman named Cronin, who had boasted publicly that he had found places in the tramways for many of his friends, and promised the municipal employees that he would remedy their grievances. His opponent attacked him before the voters and argued that such a man was a menace to the efficient management of the department. Cronin was defeated for reelection by a large majority. This was the only instance of the kind which the National Civic Federation's committee found. Prof. Commons and Mr. Sullivan found that conditions as to municipal employment had greatly improved in recent years in Great Britain. They say:

> The reasons for this improvement are the greater publicity and greater interest, and the exposures of even the slightest indiscretions in the management of the departments.

With municipal ownership there would be no franchises or other special privileges to be sought or granted, and consequently one of the most fruitful sources of real news would cease to exist. The newspapers would then give closer attention to the work and efficiency of municipal officials. The public would be more accurately informed as to the facts concerning a municipally owned street railway than it is in the case of private ownership. Newspapers are constantly subjected to pressure from financial interests to prevent criticism and exposure of the actual conditions in regard to the private utility companies. Press agents are constantly employed by these companies to disseminate through the papers statements partial to their own interests or prejudicial to public ownership. During the hearing on this bill before the committee there was constantly present in behalf of the Washington Railway & Electric Co., a press agent performing the kind of work to which we have just referred.

While we wish to avoid incumbering this report unnecessarily, it might be well to cite one or two cases illustrating the point above made that newspapers are often controlled in a very objectionable way. The two cases referred to are as follows:

Mr. Henry Doherty, of the Columbus (Ohio) Gas Co., in an address before the twentieth annual meeting of the Ohio Gaslight Association at Cincinnati, March 18, 1896, said:

> Keep the newspapers on your staff, also the city authorities. Now, how to do this is sometimes a problem * * *. Say you would go to the manager and proprietors of your newspapers with such a proposition as this: "I have a few shares of stock to sell you on the following terms: I will take your note, secured by indorsing the stock over to me, with interest at a rate less than the earning capacity of the stock, with privilege of paying it at any time, upon giving 60 days' notice." To be brief, it should be our business to-day to keep the stock of our companies distributed among those who are in a position to promote the welfare of our business.

Judge Rhea, counsel for A. J. Blethen, the former editor of the Minneapolis Tribune, thus described in court, according to a local paper (The Minneapolis Journal) the relations between the Tribune and Mr. Lowry, president of the street railways of Minneapolis and St. Paul:

> Mr. Lowry desired a newspaper in one of the cities friendly to his interests. The Globe was proposed and rejected, and Mr. William Henry Smith, as manager of the Associated Press, called Mr. Lowry's attention to him (Blethen). Meetings were arranged between Blethen, Lowry, and Smith, at New York and St. Paul. Mr. Lowry said that he needed an organ, for his franchise was for animal power only, and not very secure. At Mr. Lowry's suggestion Mr. Blethen made the purchase for $250,000

(stock of the Tribune). * * *. Mr. Lowry agreed to indorse Blethen's paper for balance of purchase price. From this time the editorial policy of the paper was conducted in Mr. Lowry's interests, and he was always consulted. At that time Anderson and Douglas made the cities a proposition for a cable line. Every paper in the city of Minneapolis favored it except the Tribune, which fought it with 50 or more editorials. Some claimed that Mr. Lowry was part owner of the Tribune. Of course, Blethen peremptorily denied the allegation. Mr. Blethen was technically the proprietor of the paper, and it would never do to allow the people to know that Lowry had indorsed his paper for $160,000.

With newspapers free from such influences as private street railway companies can and do bring to bear upon them, they could and would without restraint criticize any attempt by public officials to place political supporters in the street railway service, regardless of competency.

The fact is that private ownership fosters the political machine to a far greater degree than public ownership.

In discussing experience under private and municipal street railways we have confined our references strictly to street railways so that there may be no question as to their application. We have made some reference to the San Francisco and Monroe, La., municipal street railways. We shall now discuss briefly the British experience with municipally owned street railways.

One of the troubles resulting from private ownership is the natural reluctance of the private owner to make extensions unless it is evident that the extension will pay. It is not surprising, of course, that this should be the attitude of the companies' officials. They desire and are expected to manage the affairs of the company in such away as to produce the greatest possible profit. But surely such a policy is detrimental to the city's welfare. There is a constant public demand for the relief of congested districts, not only on account of the people housed in them, but for the good of the entire municipality. This could be better accomplished by judicious extensions of street railway facilites, and a municipally owned system would be so extended. Public sentiment for the relief of congested districts, and for the greater distribution of population so as to make urban life more wholesome, would cause municipal authorities to reasonably anticipate the increase of population in outlying territory, even at a temporary loss. This has been the British experience.

PUBLIC OWNERSHIP OF URBAN AND SUBURBAN STREET TRANSPORTATION[1]

Municipal ownership would mean:

For the street car employees:

Better wages,

Shorter hours,

Other gains, and in so far as they are citizens,

Self-employment. They would continue wage-workers, but wage-workers of the public of which they are a sovereign part. For other employees a daily exhibit of this difference between public and private employment.

For the public:

1. Lower fares.
2. Better service.
3. The latest improvements.
4. Inclusion of public health, decency, distribution of population as elements to be considered in the development of the street-car lines.
5. Removal of the corrupting influence of the street car millionaires in press, politics, pulpit, society, the clubs, the Council, etc.
6. Cutting out a link, and a most important one, in the chain of the private, profit-seeking monopolies of public utilities, making the next step that much easier.
7. Educating the public in the public ownership and operation of the "means of production, distribution, and exchange," and giving them confidence to proceed to other socializations as light, land, houses, docks, manufacture of articles used by the city, and from that to manufacture of articles used by the citizens.
8. Enabling land values to be (1) modified as by extensions into the country, by "one city, one fare" rates: (2) socialized as by municipal experiments, like those in London and elsewhere in buying land, building houses—another form of the "ownership and operation of the means of production, distribution, and exchange."
9. Bringing electric lighting and heating within practical reach, since the power plants could also furnish light and heat.

[1] By Henry Demarest Lloyd. Twentieth Century Magazine. 7:27. November, 1912.

Here is a movement in which every step towards socialization is made easy for us. The industry presents in an aggravated form every evil of which the socialists complain in the modern situation, exploitation, corruption, monoply. Every citizen is in touch with the evil, and by tens of thousands they can be taught socialist doctrine and led to cooperate in socialist work. The saving of fares would be the smallest item in the lists of human benefits, but still a saving of $12 to $24 a year by every man, woman, and working child who uses the cars regularly is something, is it not? Our total federal tax is only $75 per capita.

RECENT DEVELOPMENTS IN THE PUBLIC UTILITY FIELD AFFECTING FRANCHISE POLICIES AND MUNICIPAL OWNERSHIP[1]

While it is assumed that public sentiment is crystalizing in favor of municipal ownership and operation and that we are drifting toward the realization of that system as an ultimate policy, certain important facts, upon careful examination, belie the assumption. At this moment, two powerful but conflicting tendencies in the public utility field have gained headway in the United States. One is the tendency on the part of great municipalities to recognize public utilities as municipal functions, and by means of new or resettlement franchises containing purchase clauses and amortization provisions, to prepare for the ultimate muncipalization of the utilities, particularly street railways, now privately owned and operated. This tendency has dominated to a greater or less extent the street railway settlements adopted during the past ten years in Chicago, Philadelphia, Cleveland, New York, Kansas City, Des Moines, Dallas and Cincinnati, and is now dominating the negotiations pending in Toledo, Minneapolis, Oakland and St. Louis. San Francisco and Seattle have

[1] From article by Delos F. Wilcox. National Municipal Review. 7: 158-8. March, 1918.

[2] Since this report was presented, the Detroit United Railway has repudiated its day-to-day agreement with the city of Detroit. The old rates of fare and the old state of war have been restored together.—D. F. W.

even gone to the extent of establishing competing municipal car lines, and Detroit has once voted 4 to 1, in favor of municipal ownership, and is now going along under a day-to-day agreement,[2] refusing to grant a new street railway franchise on any terms. The other tendency referred to is the one typified by the Illinois decision in the *O'Connell* case. It is based upon the theory that the state as such has no interest in the change from private to public ownership and operation but, taking utilities as it finds them, should assume control of rates and service to the exclusion of the local authorities. That the legislature, in the absence of specific constitutional guaranties of municipal home rule in respect to this particular matter, has unrestricted authority to exercise the police power, or to delegate its exercise to a state commission, without regard to the public utility policies which may have been formulated by local authorities and sanctioned by local contracts, has now been established by court decisions n many of the states, including Wisconsin, Washington, New York, Oklahoma and Illinois. Already the development of this legal theory and its actual application by state public service commissions have begun to counteract the other tendency to which we have just referred and to paralyze the efforts of cities to grapple with their local utility problems and to formulate and adopt effective municipal policies looking toward the ultimate practical recognition of public utilities as public functions. The significance of this conflict can hardly be overestimated, for it is clear that with all the traditional assumptions of state sovereignty in its favor, the movement for exclusive state control is likely to prove too powerful for the cities acting individually, with the result that the public utility policy of this country will be crystallized by state action in favor of the permanence of private ownership and operation without regard to the desires of the cities for whose benefit the utilities have been established.

In our judgment the proper solution of the problem lies in two things: first, a definite and comprehensive formulation of municipal policy with respect to public utilities, and second, a careful delimitation of the spheres of state and local control with provision for legal co-operation between state and local authorities in the exercise of the necessary supervision over public utilities while they continue to be owned and operated by

private corporations, and in a different way after they have been municipalized.

Specific Recommendations

Specifically, as to the formulation of municipal policy and as to the co-operation between state and local authorities in the control of public utilities, we make the following recommendations:

1. That every state remove the handicaps from municipal ownership by clearing away legal and financial obstacles, so far as they are now embedded in constitutional and statutory law.

2. That every state provide expert administrative agencies for the regulation and control of public utilities. These agencies should have full jurisdiction over interurban service and over local services where the local authorities are unwilling or unable to exercise local control. They should have lmited jurisdiction wherever the local authorities are in a position to exercise the full functions of municipal government, and should even have jurisdiction with respect to accounting and reports in the case of utilities owned and operated by municipalities.

3. That every city where public utilities are operated primarily as local services definitely recognize these services as public functions and set in motion at once the financial machinery necessary to bring about the municipalization of public utility investments at the earliest practicable moment.

4. That every such city, pending the municipalization of its utilities, recognize the necessity of giving security to public utility investments and to a fair rate of return thereon, and to that end assume as a municipal burden the ultimate financial risks of public utility enterprises and insist upon receiving the benefits naturally accruing from this policy in the form of a lowered cost of capital.

5. That every city definitely adopt the policy of securing public utility service to the consumers either at cost, or at fixed rates not in excess of cost with subsidies from taxation whenever needed for the maintenance of the service at the rates fixed.

6. That every large city provide itself with expert administrative agencies for the continuous study of local public utility problems; for the adjustment of complaints as to service; for

the preparation and crticism of public utility contracts and ordinances; for the formulation of standards of public utility service; and for adequate representation of itself and its citizens in proceedings before the state commission or other tribunals affecting the capital stock and bond issues, the intercompany agreements, the accounting methods, the reports, the valuations, the rates, and the practices of public service corporations operating in whole or in part within the city's limits.

We believe that the foregoing includes only the essential points in the development of a constructive public utility policy, and that there is the most urgent need of the definite formulation and adoption, by the several states and cities of the country, of definite programs based upon the principles above outlined.

NEGATIVE DISCUSSION

MUNICIPAL SOCIALISM[1]

The British Philistine (B. Shaw) is, we have admitted, a little bitten with the socialist frenzy; but this new political arithmetic will occasionally appear to him somewhat topsy-turvy. He will ask, still stupidly obsessed, as Mr. Shaw would say, by irrelevant commercial ideals, what is now to replace the motive of the private undertaker, and how is the capital for industry to be provided? To this Mr. Shaw has his airy reply. Ability is a commodity which can be hired in the market; but, in a system which contemplates the abolition of the market, surely this is a hard saving. Economic production at a cost which will be well covered by the available purchasing power of the community is no longer an object. We are trading largely for the sake of invisible profits; and in matters of invisible profit the mere able man of industry is as a child. The municipality, for instance, is owner of gas-works. Its object is not to sell gas to those who are willing to purchase it at a price which will give a profit either to shareholders or ratepayers. Its object is to give permanent employment to a happy and contented staff of gas-workers, to light the dark places of the town, to see that the poor man's house is lighted as brilliantly as that of the rich, and to take care somehow that no one, even remotely connected with the gas-works, is either a carouser or a debauchee. This is a task not for ability but for collectivist faith-healing. Its organiser, we suggest, should rather be the civic enthusiast who has some skill in the management of public meetings, and who, when his fellow citizens want to have electric light, can urge them with glowing eloquence to rest content with the inferior light for the sake of the common property of the town, now sunk in a gas-plant, and for the sake of the staff, who otherwise would find their occupation gone if they would not consent to be

[1] Quarterly Review. 205:420-38. October, 1906.

cruelly overworked in learning a new trade. This is a task for an inspired political wire-puller, not for the mere able man of industry.

It is not want of sympathy with socialist ideals, but absolute scepticism as to the practicability of the proposed methods of achieving them, that deters the liberal economist. He has a tempered faith in the ameliorative processes of liberty. On the whole, the free organisation of industry does give advantage to diligence and trustworthiness, does discourage and ultimately procure the correction or supersession of inefficient methods and character, while it allows us to avail ourselves of the improvements which the progress of science puts within our reach. This view promises no immediate millennium, but it explains our progress in the past, and seems to guarantee a similar advance in the future. This very phenomenon of socialism—what is it, he asks, but a sign of a righteous but over-sensitive social morality which has grown up under the very system which it seeks to demolish? With this charter of progress, such as it is, the liberal economist must be content. To him Mr. Shaw's idea that industry can be carried on without being subjected to the test of finance, and without the motive power arising from the expectation of profit, seems wildly fantastic, if not altogether unimaginable.

To an optimism like Mr. Shaw's, which settles so easily the question of management, the matter of capital offers no difficulty. The credit of the municipality is such, he argues, that it can borrow more cheaply than the private trader. In passing, we might remark that only the larger municipal bodies can now borrow at a cheap rate; and some of them would find it difficult to borrow at all. But, accepting Mr. Shaw's statement, we may ask why it is that capital can be borrowed cheaply by municipalities. The answer, we presume, is, because the security is good, because society acknowledges its indebtedness for all time, and guarantees the principal and interest of the debt. The indefinite extension of this system is an immense boon to the idle capitalist class, or, at all events, to the richer section of it. But the question surely remains: Is the system really cheap to the community? Let us consider a concrete instance.

The estimated capital expenditure for the London County Council's steamboat service is about 300,000*l*. Something presumably must be added for working capital, if, as is inevitable, we

still talk in the discredited language of commercial accountancy. The traffic is carried on at a loss of over 53,000*l.* per annum. The 53,000*l.* loss, in Mr. Shaw's audit, is compensated by invisible assets, *e.g.* the contentment, etc., of 300 polite and skilled officials who, being in municipal employment, are, we hope, as well satisfied with their wages and as free from sickness and the other inconveniences of life as Mr. Shaw's picture leads us to expect. The steamers, it is generally admitted, go too slowly and unpunctually to suit passengers on business bent; but the account must be credited with pleasant excursions enjoyed by many persons of leisure at a nominal cost. It is difficult to reduce these advantages to figures; and, pending the arrival of the new profession of municipal accountancy, we must be content with the Council's assurance that they more than balance the loss of 53,000*l.* per annum.

To continue, however, the question of the capital involved. A steamboat service on the Thames is a very proper field for enterprise. It has been attempted by more than one set of private capitalists; for hope springs eternal in the commercial breast. They ventured at their own risk; the public had for a while its service of boats; but, as the ultimate result, most of the capital is now resting quietly, a burden to no one, figuratively speaking, at the bottom of the Thames; and no one except the capitalists concerned is a whit the worse. The capital involved in the County Council experiment, on the other hand, remains a debt owed to the well-to-do people who have taken up County Council stock. It will have to be paid, interest and principal, by the ratepayers and taxpayers of the county, and so becomes a permanent burden on the community.

In considering the duration of the life of capital in other walks of trade, we have first to remember that a very large amount of capital never makes any return at all to the investor, and that most of the investment which is productive only remains so because it is constantly renewed and refreshed by fresh doses of capital. The disadvantage of this seems to lie entirely with those who adventure the capital, *viz.* that class of the public which presumably is most able to bear the loss. The advantages belong to the community at large, for whose sake invention is stimulated and the improvement and supersession of antiquated services encouraged. It is not to be supposed that the same spirit of enterprise could or should characterise the

work of a municipality which is risking public funds which it cannot write off as bad debts. The same principle is illustrated by the comparative impotence, uselessness, and occasionally absolute harmfulness of endowments. The permanent withdrawal of capital from the control of the living, and its committal to the sterilising grasp of the dead hand, are often not far removed from a public misfortune. The same unavoidable danger seems to attend the proposal to make capitalisation a municipal or national function.

The first step of the municipalising enthusiast, as we understand it, is to warn the private adventurer off those fields of enterprise which for their inception require legislatively conferred way-leaves and franchises; and it need hardly be pointed out that these constitute a very large and increasing proportion of the great industries of the civilised world. Investors who otherwise might have ventured their money in such undertakings are invited instead to take up municipal stock. The whole burden of preserving intact the evanescent value of such investment will be thrown on the rates and taxes. The old channel of relief which lay through the writing-off of the bad debts of industry will no longer be available; and public enterprise will sooner or later have to face the alternative—of seeing progress brought to a standstill by reason of the burden of indebtedness in respect of improvements of which the value has expired, and of having to decline new fields of enterprise in which the yearly increment of the population might expect to find its profitable employment; or, on the other hand, of repudiating the debt, a course logically demanded by those who regard with abhorrence the existing capitalistc order.

But the stronghold of the advocate of municipal trading and the denouncer of profit is the alleged injury to the public when a service is carried on by private enterprise under a complete or partial monopoly. Monopoly of old was a usurpation granted by the Crown to an individual or a corporation, or for some plausible reason assumed by the public authority itself; and the profit which is made under such conditions is in reality a tax. It is only in comparatively modern times that monopoly has been granted for the protection and advantage of the public. Monopoly is an evil arising out of a natural limitation of supply, and is only to be mitigated by a choice of evils. To give compulsory powers, under conditions, to railways and telegraph

companies seemed preferable either to allowing them to tear up the streets at their will, or to making the public wait for the advantage of railways and telegraphy till the companies could agree with private owners. No great principle seemed at stake. Gas, water, and sewage were managed by companies or public authorities, as accident decided. Of old time the Government claimed a monopoly in letter-carrying, and later insisted on adding to it the telegraph and the telephone, which seemed formidable competitors. It allows messenger companies, but exacts from them a heavy royalty; and as yet it has made no claim to a monopoly of carrying parcels. The Government makes roads, but not railroads; it is partially responsible for harbours, but not for railway stations. No one invariable principle has been followed.

The difficulty of protecting the public in monopolised services as adequately as it protected in other services by competition is probably not wholly superable. If, as with the Post-office, the Government constitutes itself sole contractor, it is impossible to say what we may have lost in efficiency. Letters are carried at a profit, but all other branches of post-office work are conducted at a loss; and by common consent, we have the worst telephone service in the civilised world. We have not even the consolation that the postal staff is made thoroughly happy.

If next we consider the important service of railways, we shall find that the protection of the public is more effectively carried out by competition, which was supposed to be excluded, than by the regulations of the Board of Trade, though these have been carefully and wisely contrived. To begin with, there has always been competition between one railway and another; roads and canals and sea-carriage are still available; but probbly the greatest incentive to diligence in the public service has been the recognised disposition on the part of goods and people to stay where they are unless movements are encouraged by cheap and attractive conditions of travel. If we consider the fact that there are, as a rule, alternative ways of doing what we want to do, and that much that we want to do may very well be left undone, it will appear that the evil of railway and, indeed, of all monopoly is much exaggerated. Purveyors of service for our luxuries, amusements and necessities compete more or less unconsciously one against another. If fine cognac

is dear, we pretend to prefer Scotch whisky; if a holiday by railway is uncomfortable owing to overcrowding and expense, we take a steamer to Cromer or to Norway. Even if a business journey to Birmingham might seem desirable, the excessive cost of it may decide us to make shift to manage by means of letter or telegram.

Summing up this portion of our argument we may say that the evil of monopoly is very much exaggerated; that regulation for the protection of the consumer is possible; that a closer consideration of the different methods of introducing regulations might even warrant us in increasing the sphere of monopolised industries served by private enterprise; and lastly, that, even if regulation is evaded and a considerable profit is made, the earning of profit is a legitimate incident in industry, and that the existence of a guaranteed investment has a public and general convenience. It is frequently argued, and with some plausibility, that the existence of state and municipal debt has a great advantage as providing financial convenience to banks, insurance offices, provident societies, trustees, and persons responsible for the custody of charitable and similar funds. Stocks representing partially monopolised undertakings offer a field for the investment of such funds which is not open to the objection urged against the municipal capitalisation of industry pure and simple, namely, that municipal debts exist for the advantage of the *rentier* class only, and that they withdraw capital from the risks of competition to which, in the interest of the general consumer, ordinary investment is properly liable.

The economical creation and distribution of electrical power can only be carried out on a grand scale; and for the inception of such enterprise parliamentary powers are needed. The areas of municipalities are admittedly too small to satisfy this condition. Local Government divisions generally have arbitrary boundaries, and do not lend themselves to the advantageous grouping of power-areas. The supply of electrical energy to the mechanical industries of this country is an undertaking of unprecedented magnitude. Not only, it is suggested, can the present uses of steam and gas be largely superseded by the new force, but industries and uses altogether new and unimagined are waiting to be called into existence. Large fortunes will be made, and large fortunes will be lost, in experiments. If we are to feed and find employment for the increasing mil-

lions of this country, and to hold our place in the van of nations, we have need here of a lavish and reckless expenditure of money by the captains of the industry.

It is painful, therefore, to be forced to the conclusion that this movement is being strangled in its infancy by the miserable jealousy and self-sufficiency of the municipal monopolist. Municipalities, unabashed by the revelations of municipal incompetence at Poplar and West Ham, are asking that they shall be made the monopolists of a force on which the whole future of British industry probably depends. The impotence of the larger authority, the County Council, for such a task is hardly less marked. The leading spendthrifts of Poplar are influential members of the London County Council. They have overborne the opinion of competent financiers like Lord Welby, the chairman of their own finance committee, and are determined to obtain a monopoly for the supply of electrical energy. Hitherto this dire calamity, which would probably condemn London to gradual but certain industrial decay, has been averted; but, with one or two exceptions, notably at Newcastle, the agitation has succeeded in its dog-in-the-manger policy of defeating all applications from private companies for leave to speculate in this vast field of industry. Meantime we are being overtaken and relegated to an inferior rank among industrial nations by countries which have found means to evade the rapacity and stupidity of these obstructive tactics. It is not now a question of protecting the helpless consumer; that disguise will no longer serve; the managers of the industrial enterprise of this country do not ask to be protected from the monopoly of private adventurers, but from the incompetence and inadequacy of municipal management.

We have followed the example of Mr. Shaw and have discussed the question in its larger aspects. We agree that reference to figures is probably irrelevant when addressed to those who are forcing on this movement. The strength of the party of municipal monoply is pure fanaticism. Its adherents repudiate accountancy and rely on arguments which hardly seem to touch the ground of common-sense. In Major Darwin's work the reader who desires a more detailed consideration will find a most dispassionate discussion of the merits and demerits of each argument. Like Mr. Shaw, he recognises that the appeal to balance-sheets is futile. He suppresses, however, any in-

clination he may feel to decide the question by reference to a general principle, and considers each allegation on its merits. This procedure will be found most useful for those who are disposed to regard the subject as an open question; but, as we have argued, the whole controversy is overshadowed by the larger issue of whether we are prepared to make a great experiment in collectivism. If we are not prepared for this, municipal trading stands condemned; it can only be logically acceptable to those who regard it as a starting-point for a far-reaching economic revolution which they earnestly desire.

MUNICIPAL OWNERSHIP OF ELECTRIC LIGHT PLANTS[1]

Does it pay a city to go into the electric light business? Should it own its street-lighting plant or should it let the contract to a private company? These are questions which have perplexed the voters in many towns. The average citizen who pays the taxes needs only to have the evidence on both sides laid fully before him to decide and vote in the way most favorable to his pocketbook. His difficulty usually is to get the evidence. On the one hand, if the most radical advocates of municipal ownership are to be believed, the electric-lighting companies of the country are earning enormous profits, which under municipal ownership would stay with the taxpayers and consumers. On the one hand, if the most radical advocates of municipal nicipal ownership, such ownership has a record of dismal failures, mismanagement and graft. The majority of thoughtful citizens who belong to neither of these two radical classes are looking for the truth, which (as usual in such arguments) lies somewhere between the two extremes. I will aim to present in an unprejudiced way some of the essential facts on both sides, as observed during the many years' work and familiarity with the electric light and power industry of the country, both as carried on by cities and by private corporations.

In the case of a large number of the electric light plants owned by municipalites in the United States, the question of city versus private ownership was never an issue, for the reason that the towns are so small and the profits so uncertain that if

[1] By James R. Cravath. World To-Day. 12:374-9. April, 1907.

the city did not build the plant no one else would. These we must evidently leave out of account in our discussion. What, then, are the objects sought by a city which establishes its own electric light plant if private capital has embarked, or is willing to embark in the enterprise? Evidently to save money for the taxpayers or to get better service.

The common argument, of course, for the establishment of a municipal plant is that the city will gain the profits which ordinarily go to a private company undertaking a street-lighting contract. But what are the profits actually earned by electric light and power companies through the country?

Whether an electric light plant is built by the city or by a company, interest should be paid on the investment. If we assume that a large part of the cost of construction is paid by issuing bonds, it is undoubtedly true as claimed by municipal ownership advocates that a city can sell bonds bearing a lower rate of interest than could a private corporation doing the same business. It will be evident, however, that a difference of one or two per cent in bond interest on a plant may easily be counter-balanced by other factors, such as the rate of wages paid and the efficiency of the management.

It is of first importance to determine in this connection the actual profits being made by electric light and power companies over and above the common rates of interest paid on municipal bonds. If such profits or dividends are considerably above interest rates on municipal bonds, we have at once a strong incentive for municipalities to enter into electric lighting business themselves. Otherwise one great argument for municipalization disappears.

Unfortunately there are no figures available on the financial condition of electric lighting companies the country over, and we must fall back upon our general knowledge of the business and the statistics of a few localities. The State of Massachusetts for twenty years past has had an excellent system of regulating electric light companies and municipal plants and safeguarding the interests of both stockholders and public. Yearly reports are made to a board of gas and electric light commissioners, both by private companies and municipal plants. We have therefore from Massachusetts more complete information as to the state of the industry than from any other state or locality. We can place more confidence in the reports of this

commission than in most of the other statistics cited in connection with municipal ownership controversies, for the reason that the methods of classifying accounts and making reports as well as the issuance of stock and bonds are controlled by the commission according to certain uniform regulations, and have been for many years. Companies and municipalities not required to report according to such fixed rules, if they issue reports of their financial conditions at all, issue them in such various shapes that no one but an expert can analyze them in a way to afford a true comparison, and frequently even an expert can not make such comparison without actual further examination of the books.

In Massachusetts, according to the 1905 report of the commissioners, of the fifty-six purely electric light and power companies in the state, twenty-four paid no dividends; one paid a dividend of two per cent; one a dividend of four per cent; one a dividend of 4.5 per cent; four a dividend of five per cent; eleven a dividend of six per cent; three a dividend of seven per cent; eight a dividend of eight per cent; one a dividend of nine per cent, and two paid dividends of ten per cent. In some states with some kinds of corporations these statistics on dividends would give little indication of the per cent of earnings on the actual investment, because of the common practice of issuing watered stock for which but a small per cent of the face value has been paid. In Massachusetts, however, where securities for many years past have been issued only upon approval of the commission, to pay for actual improvements in a plant, these figures can safely be accepted as indicating very nearly the true state of affairs. This statement as to dividends, of course, does not show what earnings may be put back into the property in the shape of new construction and extensions. In this latter connection it is of interest to note that the combined balance sheets of the Massachusetts companies show a surplus of 10.76 per cent on the entire capital stock, in the 1905 report, but this is less than the surplus showed the year previous.

These figures simply demonstrate what is known to every well-posted man in the business: namely, that electric light companies, when well managed and if in sufficiently large towns, can be reasonably expected to pay the usual prevailing rates of interest on investment, and in some cases a little more than that, but that there are plenty of companies which either for

the lack of good management or for some local reason are earning practically nothing. There is certainly nothing in these figures to indicate that enormous profits are to be pocketed by taxpayers as a result of a municipal electric light plant.

But are the street lighting rates in the Massachusetts cities served by private companies the same as those where there are municipally-owned plants? Consulting the Massachusetts report further to determine this point, we find that the rates per year for arc lamps commonly rated as 1200 c. p. are from $104, the highest rate, to $54.69, the lowest. In municipal plants the cost of such lamps is given as from $133, the highest, to $53.34, the lowest. In the Massachusetts figures, of course, interest on the investment is included, as it should be in all such reports. Taken altogether, the cost of street lighting by municipal plants in Massachusetts is not strikingly different from that in cities supplied by private companies, although the highest municipal figures are considerably above the highest contract figures.

The reason that these Massachusetts figures on costs of municipal lights do not correspond with some which we see quoted by radical municipal ownership advocates on plants in other states is that in Massachusetts the law requires that an allowance of five per cent of the cost of the plant shall be made yearly for depreciation. This allowance is certainly none too much, and in some cases is too little, but it is frequently left out of account altogether in figuring the cost of municipal lighting on a plant owned by a city.

Another set of statistics which throw some light on the amount of profit in electric lighting business in general is obtainable from a report made by the secretary of the Iowa Electrical Association to that body in 1906. The secretary obtained reports from seventy-seven electric light companies in that state. The average dividend was 2.95 per cent.

New York state also has had for a short time a gas and electric light commission under laws similar to those in Massachusetts. The returns made indicate in general a very similar conditions of affairs to that in Massachusetts. On the whole, from my knowledge of the business the country over, I think the Massachusetts figures would correspond closely to those in the majority of other states, were the figures known, except that a very limited number of companies may temporarily earn a little better than ten per cent.

I have so far considered this question of financial returns only in a general way, without taking up specific examples. For those who wish to study such specific examples the published reports of the Massachusetts and New York commissions are open. As the former reports are made on uniform systems of accounting, comparisons can fairly be made between the different companies and municipalities reporting. Specific examples from other states have been cited many times in municipal-ownership controversies, but because of the great differences in methods of accounting, as before explained, they are likely to be almost worthless for purposes of comparison unless scrutinized closely by experts.

One of the most prominent examples of a municipally-owned electric light plant is that of Chicago, about which there has been considerable controversy. Chicago's municipal electric light plant, unlike many others, was not built by the sale of bonds, but has been paid for a little at a time out of the general tax levy as the plant has been gradually enlarged. According to the last published report of the city electrician, in which interest on the money was figured in both cases, there has been a saving to the city of something like ten per cent in the total cost of street lighting for the entire period of eighteen years the city plant has been in operation. This statement, however, assumes that the cost per lamp under a private contract would have been the same as the city has been paying a company for a few rented lamps in widely scattered outlying districts where the city could not operate as cheaply. As to whether Chicago would have had to pay for a large number of electric street lamps as much as it has been paying for a comparatively small number of scattered lamps on short and uncertain contracts, is, of course, problematical.

According to Haskins & Sells, expert accountants, who went through the Chicago lighting accounts about six years ago, the operating cost of a municipal 450-watt arc lamp in the city of Chicago in the year 1900 was $62.09; and the total cost, including water, insurance, taxes, depreciation and interest charges was $99.08. Allowing for certain items, over which there may be controversy, it is safe to say that the cost per lamp was over $90, including fixed charges, which is not far from the average paid in other great cities. The rate paid for similar lamps in New York city is $100, but coal and distribution investments are higher in New York.

Chicago has what might be rated as one of the relatively successful municipal plants. Among the decidedly unsuccessful ones, a conspicuous example was that at Muncie, Indiana. This city had a municipal street-lighting plant which cost $36,000. In eleven years, under council committee management (or lack of it), the operating cost per lamp nearly doubled. The superintendent, in his annual report made before the final demise of the enterprise, recommended that if the city could not find the money with which to improve the plant, it had better sell to private parties, or buy current from some private company. The matter was brought to a head by the bursting of a fly-wheel in the municipal plant and the wrecking of the station. A ten-year contract was then made with the electric light company to supply street lamps at a cost far below the operating cost shown by the yearly reports of the municipal plant. The municipal plant, upon which $36,000 had been expended in construction, was valued by a board of appraisers at $15,000, or a depreciation of $21,000, with no fund to provide for it.

I might go on and cite numerous cases of disastrous municipal electric-light plant ventures and I might also cite some cases of well managed and successful municipal plants.

If a proper depreciation account is not kept and a municipal plant is not insured for its actual value, it is the whole body of taxpayers who suffer when the plant is destroyed by accident. When a company gives poor service or charges high rates, the public at large will be much more benefited by taking measures to secure adequate control of the offending company than they will by trying to take over the business of the company, the difficulty of whose operation is not known.

In the case of both private and municipal plants, the margin of profit is small enough for good or bad management to throw the balance one way or the other. But with this difference: If the private plant is mismanaged it is no concern of the taxpayer; it concerns only stockholders. Under a contract with a private company for street lighting at a reasonably low rate, the taxpayer takes no risk save a possibility of paying a small percentage more for given services than he would pay if the city ran the plant. If the city owns the plant, he may get his street lighting for a little less than he would pay the private company, but with the tolerable certainty that if there is grafting or incompetency in the management of the plant, he will pay a good

deal more. In fact, it is a kind of one-sided speculation except, of course, where reasonable rates can not be obtained from a private company. The taxpayers of a city usually, therefore, should think several times before embarking in such enterprises.

As the management of municipal electric light plants is such an important factor in determining whether it is a losing proposition or not, let us inquire into the possibilities for good or bad management in connection with it. I am not one of those who believe that municipal management is necessarily and invariably incompetent. This is disproved by a number of cases where municipal enterprises were well managed. But there are certain things in American municipal affairs to which we can not shut our eyes, however much we may hope to change them within the next twenty-five years. The war against graft in municipal politics has been making considerable headway the past ten years, and we may hope to see it make even better headway the coming ten years; nevertheless graft is a factor to be considered.

The fact is that at the present time it is as a rule difficult to get the best class of men for the management of municipal enterprises. Why? In the first place, a man of ability and ambition will usually prefer to work for a private corporation where opportunities for advancement and appreciation of ability are better than in municipal service, and where he is more certain of his position. The man working for a municipality is altogether uncertain as to his future or as to the competency or incompetency of the council committees to which he may be responsible. As he is working for the public, he is subject to all sorts of criticisms to which an officer in a private corporation is not subject, and may even be suspected of grafting because he is a city employee and for no other reason. These things, no doubt, account for the fact that comparatively few men of promise in the electric lighting industry of the country are to be found in municipal plants. In my personal experience on the editorial staff of a paper devoted to the electric lighting industry and in travelling among such plants, I almost invariably find that the up-to-date, progressive and aggressive management which contributes to the general progress of the art is to be found in private rather than municipal plants.

The advocates of municipal ownership have laid considerable

stress on the possibility for corruption of city councils and other officers in connection with the letting of the street-lighting contracts or franchises to private companies. That there are such possibilities, especially in the larger cities, no one will deny. On the other hand, is it not likely that a city government composed of rascals would find even more opportunity for robbing the taxpayer under municipal ownership? In the case of a private contract the amount is definitely known to every one at the time the contract is made, and if there is anything very unreasonable about the proposition, public sentiment will enforce reasonable terms before the contract is signed. When the public utility is municipally owned, it is a difficult matter to locate and prevent graft both large and small.

Space is not available here to cite specific examples of successful and unsuccessful municipal plants at any length, but I may mention a few of the extremes. One of the most successful municipal plants I know of is that at Marquette, Michigan, where the city developed a water-power. The property is managed much like that of a private company. Considerable power load is carried. So enterprising has been the management that the gross earnings from operation, according to the annual reports, are as high as $4.20 per capita of population. Most private companies are not doing as well as to gross earnings. The lighting department of the city is kept separate from all others, just as if it were a company, and it is paid $75 per year for a 2000-c.p. arc lamp. For the balance of the revenue the management of the plant is dependent on its own enterprise. Chicago's plant is mentioned elsewhere. Detroit's municipal plant may also be rated among the more successful. While lamp costs in Chicago and Detroit are nowhere near as low as advertised by municipal ownership advocates in years past, they are not far from prevailing contract rates.

Among recent municipal ownership failures may be enumerated Muncie, Indiana, mentioned elsewhere, plant abandoned, and bonds not paid off; La Grange, Illinois, plant sold to a company; Elgin, Illinois, municipal costs so high that contract was let to company; Jonesboro, Indiana, plant turned over to bondholders; Alexandria, Virginia, plant leased to a company for thirty years; Ashtabula, Ohio, $88,000 plant depreciated $50,000 in fourteen years, advertised for sale; Brunswick, Missouri, plant sold for thirty-five cents on the dollar, city taking pay in

light and water; Casselton, North Dakota, plant sold for two-fifths cost; Siloam Springs, Arkansas, $30,000 plant leased for $600 per year; Peru, Indiana, council investigating committee found arc lamps cost $207 per year and advised that the city abandon the business and sell the plant; Linton, Indiana, plant leased for five years; Hamilton, Ohio, gas plant shut down and state examiner reported deplorable financial conditions and abnormal costs due to faulty construction in electric light plant; Bloomington, Illinois, increase from $58 to $65 in yearly cost of arc lamps in ten years, although cost should have been less; Easton, Pennsylvania, mayor favors letting of private contract if city can not maintain better service, and business men petition for such a contract; Lakewood, Ohio, expert accountant found cost of arc lamps about double the price offered by a private company.

What conditions will be twenty-five years from now, I do not know, but I hope and believe that they will be more favorable for municipal enterprises. In the meantime I am willing to let the private corporations take the risks and the profits wherever they can and will give reasonable rates and good service.

MUNICIPAL TRADE[1]

Mr. Bernard Shaw, in his 'Common Sense of Municipal Trading' (p. 3), tells us that 'the central commercial fact of the whole question' is that cities can raise money at low rates of interest, and that consequently the citizen, 'by municipal trading, can get his light for the current cost of production plus a rate of interest which includes no insurance against the risk of loss, because the security' is practically perfect. Prices in municipal trade can therefore, so it is urged, be reduced below the level of prices in private trade. This is, no doubt, a view commonly held by sensible persons, and it may on that ground be described as the common-sense of municipal trading. But if it is widely accepted, it is so not because it is accurate, but because the underlying fallacy is not easily exposed. Is it right, it should in the first place be asked, that a municipality should make 'no insurance against loss' out of the profits of

[1] By Leonard Darwin. Quarterly Review. 209:409-31. October, 1908.

any industry it may manage? Every commercial venture is not a success; and losses are inevitable if a city enters extensively into such enterprises. Out of the profits of successful ventures, such as gas-works, an insurance fund ought therefore to be created to cover losses in unsuccessful ventures, such as the London steamboats; for, if this is not done, these losses may have to be met by additional taxation. No doubt most municipal trades are monopolies, in which case the city has generally the option of raising prices as an alternative method of meeting a loss.

It is obvious, therefore, that in order to estimate the immediate increase of taxation likely to fall on the citizens of a city municipalising any industry, the probable net loss in cash must first be estimated; and to this must be added an estimate of the rent which would be drawn from the private proprietors of the industry if it were not municipalised. In fact a careful study of these returns indicates that an increase of taxation is the probable immediate result of municipal trade, though it is a result which the citizens concerned may never perceive.

To discuss in detail all the reasons why the direct employment of labour by municipalities is likely to be costly would occupy many pages. But an analysis of these reasons indicates that they are based on a few broad underlying considerations which may be briefly stated here. In the first place, the municipal workman often has a vote in the district in which his work lies, and thus gains a voice in the selection and rejection of his masters, the members of his town council—a privilege not enjoyed by any private workman. This is, no doubt, the basis of socialistic claim that the civic employè is certain to be well treated. But it also indicates the probability that workmen in public employment will be paid wages above the market level, that less work will be demanded of them in a given time, that discipline will be less effectively maintained, and that for these reasons the cost of production will be greater in municipal than in private trade. In the second place, the stimulus of personal gain is almost inoperative in municipal trade, whilst that same stimulus animates private trade in ways too numerous here to be mentioned, thus making private trade more progressive than municipal trade—more progressive, that is, in cases where financial success is probable. In a district where the profitable working of a tramway is improbable, it may

be that it is more likely to be constructed by town councillors than by company directors, because the local authorities are unrestrained by that excellent commercial brake, the fear of personal loss.

It is perhaps unfortunate that the question whether municipal trade pays or not necessarily forms such a large part of this controversy, because no doubt in many matters other considerations are more important than those concerning finance. Cities may be right to face losses when those losses are incurred for the general good; and the management by local authorities of roads, waterworks, baths, slaughter-houses, cemeteries, harbours, etc., when these services are unremunerative, may in many cases be justified on this plea. But to impose additional taxation merely for the sake of encouraging the direct employment of labour cannot thus be justified, for the result would be to benefit a class and not the whole community. In fact, as regards society generally, direct employment is the reverse of a benefit, because the germs of corruption undoubtedly exist in our cities, and the probability of the disease spreading is greatly increased if large numbers of employees are brought under the direct authority of the civic authorities. This is by far the strongest argument, not necessarily against municipal ownership, but against the direct employment of labour by civic authorities. On this subject the United States is often held up as a warning in indicating the depths of corruption into which English-speaking cities may fall, and of the difficulty of extricating them.

MUNICIPAL OWNERSHIP OF PUBLIC UTILITIES[1]

All the arguments that can be made for municipal ownership and operation of public utilities can be made against it, with the additional argument that the very highest measure of success in business management has been attained in private or quasi-public enterprises; and this will always be so, so long as we live under a form of government subject to frequent elections, spasmodic reforms and the lifting into office of many men, often unfitted to conduct with success the commonest af-

[1] By John W. Hill. World To-Day. 12:621-5. June, 1907.

fairs of life. Municipal ownership means the conduct of public utilities by men whose chief and sometimes only claim to consideration is the fact that they received more votes than their opponents at the last election.

Unless all men are capable of managing public utilities, municipal ownership and operation in principle is bound to be a failure, because any man may by the votes of his friends be suddenly thrust into an office which will require him to assume the management of enterprises calling for technical skill and experience; and herein lies the danger to public interests, because the staff can not be any better than its head, and under the withering and degrading influence of partisan politics is often worse than the head.

Political appointments are to be condemned, because they are political appointments, and not because of inherent objection to the man appointed, for no matter how great his talents, or how evident his fitness for the work assigned, the knowledge that this appointment is due to political influence rather than to recognition of merit, will clog his efforts and weaken his ambition, and the constant feeling of insecurity connected with public office will chill his ardor and shorten his reach.

All public utilities begin with plans and construction work, and here arises the first economy in favor of private ownership. In organizing the staff to design and build, merit and efficiency alone are considered, political considerations do not enter, and each man is selected and each move made to secure the largest, quickest and safest return for the money expended. In private enterprises promises for efficient service can be made and the incentive to active and successful effort can be maintained. Civil service rules which are often a bar to high achievement and practical ability in municipal enterprises seldom find place in private work. A competent official is recognized and awarded even though his knowledge of Greek and grammar is not of a high order, and the adjustment of the members of the working staff to the positions of greatest usefulness is sure and easy under private management.

The writer at one time had occasion to seek the services of a competent transitman in tunnel work; several candidates were highly recommended for the place by the City Civil Service Commission, who, when put to work, succeeded indifferently well. Finally a man of large practical experience in coal-mine

surveying, but with a poor record from the Civil Service examination, was employed for the duty, with marvelous results in the speed and accuracy of his work. This man had grown up in the coal mines, had learned to handle a transit and level as a forester learns to handle an ax, with only the rudiments of trigonometry at command and wholly unable to explain on paper the usual adjustments of field instruments, but he was as sure in his work under ground as if it was second nature. He made good, nothwithstanding his failure to show a satisfactory record on Civil Service examination, but it was only by violating the civil service rules with regard to appointments in the city service that his talents became available. In a private enterprise his record of past experience and recommendations would have secured a place for him.

Freedom of action in choosing one's assistants seldom prevails in the conduct of municipal bureaus. Eminent talents are rarely known and seldom sought for among the employees of municipalities, because the term of office is short or uncertain and the encouragement to lofty and persistent effort correspondingly lacking.

In organizing a municipal staff, the first consideration is political service and availability for future political ends. A ward captain will usually rank higher in the estimation of the appointing power than an experienced mechanic, engineer, clerk or accountant, and utility and fitness for the task assigned is a secondary consideration, and too frequently not a consideration at all. Under such conditions public service is perfunctory, dilatory and inefficient, the cost of service is enhanced, and the comfort and convenience of the public impaired.

This is not necessarily due to inherent defects or incompetency in the individual appointee, but to a pernicious feature of American municipal government, which makes merit and fitness for service take second place to influence and patronage. Under such conditions any part of a public service which depends upon manual labor or human skill must be obtained at an increased cost over the same service from a system which knows neither influence nor patronage, and which marshals its employees according to merit and fitness for the duty assigned.

In organizing a working staff for a private corporation, the fewest men consistent with the work to be performed are selected, and effort is always made to bind them by feelings of

self-interest to the enterprise, and retain them indefinitely, because their experience bcomes a valuable working asset of the corporation, which can not readily be replaced on short notice. No such conditions can prevail in public affairs because the man at the top is himself a creature of chance or caprice, and his tenure is subject to the whims of the people who elevated him to office. He can not guarantee a term to his subordinates because of political expediency and his own uncertain base, and the fidelity of service which comes from respect for vested authority, and the skill and command of his superior, can rarely be inspired in employees on municipal work.

In the making of contracts and purchase of supplies for public utilities the private corporations have a decided advantage. The usual restrictions, hindrances, circumlocution and indirectness of methods forced by law and ordinances in public contracts and purchases of materials are swept aside in private enterprises, and the object, whatever it is, is sought by direct methods guided by intelligence of purpose.

Contracts for public works are so hampered by "safeguards" and by restrictions, that an experienced and conscientious contractor is bound to protect his interests by demanding prices above those he would ask for the same kind of work from individuals and private corporations.

The exercise of judgment and sense of fair dealing which prevails between men of honor and mental ability, can not prevail with the municipal officers and the contractor. The municipal contract is an inflexible instrument, open to only one construction, and that the construction put upon it by the officer himself.

Contracts made by private corporations go direct to the three material points: 1.—Kind and quality of work. 2.—Time of performance. 3.—Price and terms of payment.

Contracts with private corporations are treated, as they should be, as commercial transactions subject to their laws and customs, and free from the taint of political or any sinister influence. Differences between the buyer and seller on quality and price of work are quickly and fairly compromised, and as a rule work on the private contract is in progress before the municipal contract has completed its travels around the offices which by law are required to participate in its execution. The red tape connected with the letting and award of public con-

tracts involves delay and expense which the bidder is bound to consider in making his prices for the work.

Private inspection and measurement of work is usually exact, without being captious, and the delay due to the list of officials who must be seen before difficulties can be met and overcome in public work are not encountered in private work, because some one in whom his employers have confidence is vested with authority to act, and his acts are by law the acts of his principals. In public affairs it is often a matter for the courts to decide as to who really has the authority to resolve disputed and troublesome conditions of municipal contracts.

Political and usually incompetent inspectors and inexperienced managers are the rule on public contracts, while a private corporation, from the necessity of conserving its capital, must have competent men to manage its work and avoid losses due to mistakes of judgment or errors of inexperience. Time and cost alike are essential elements of private corporations, because returns are sought for at the earliest convenient date, while public enterprises are usually conducted with small regard of time and less regard of cost.

As a personal conviction, I think, the less the larger municipal corporations engage in lines of business which can be conducted by private corporations, the better it will be for the public at large. There is more need of coffee and sugar in a municipality than there is of trolley cars and electric lighting. But no one, not even our most aggressive demagogues, has proposed to establish a municipally owned and operated grocery store, but it may come to this in time, when the men who purvey our real necessities of life will be political partisans imbued with the spirit of political success, rather than with the desire to cultivate and secure the good will of their patrons.

It is proper that the bent of an enterprise or monarchy should be paternal, because, as a sentiment at least, everything and all avenues of progress start from a common center at the head of the government. Paternalism, however, is neither desirable nor possible in a republican form of government where the officials from the President downward in the scale are chosen for a brief time as executives of public will, and with an opportunity too limited to admit of permanently fixing the stamp of individual ideas on public affairs.

The best service is rendered when there is hope of reward, and the best commodity produced where there is hope of profit. Where reward and profit are lacking, service and commodity depreciate in value. The rewards of political life are dubious and ephemeral, and the profits are not forthcoming by honest ways. All these things go to make municipal ownership of public utilities an undesirable end. The losses due to extravagance and misdirected efforts of municipal bodies will represent enormous dividends on properly applied capital, and when it is considered that any municipal work can be built and operated at less cost by private corporations than by public corporations, it is a marvel how intelligent people can be hoodwinked into the support of the popular and irresponsible clamor for the conduct of public utilities by municipal officials.

A case in point on one of the impediments to an award of municipal contracts is worth consideration. In a city contract involving nearly eight hundred thousand dollars' worth of work and materials, the lowest bidder, a thoroughly responsible party, was somewhat ambiguous in stating his prices on certain items, and to guard against error, he was asked to explain the intended scope of the doubtful prices written in his proposal, and upon reducing his explanation, which was satisfactory, to writing, his proposal was accepted.

A disappointed competitor prayed for an order of court restraining the director of public works from executing the contract because of irregularity in making the award. The prayer was granted and the director ordered to reject all bids and readvertise the contract, causing several weeks' delay, during which interval of time prices of materials were advanced and the cost of the work accordingly increased.

The court, in this case, held that the director had no right, prior to award of contracts, to confer with the lowest and apparently best bidder upon the contents of his proposal, as to the amount of labor and material embraced in the price of one or two of the many items; that it gave the bidder an unfair advantage over his competitors notwithstanding under the law and customs of the department he was the lowest and best bidder. The court held that the award of a public contract was not subject to the business and common-sense judgment of the director, but was a simple problem of arithmetic which could be solved by any clerk in the director's office.

The opinion of the court cost the city many thousands of dollars and weeks of delay, and was thought by the director and his advisers to be unsound in law and logic. But it was the opinion of a court, and as such had to be respected.

No such foolishness could arise in disposing of a list of tenders on a private contract, for only such people would be invited to bid as could certainly comply with the requirements of the contract. Personal interests would have no weight in making the award. Quality of work, guarantees, and time of performance and price alone would be considered, and no reasonable ground would be afforded for complaint on the part of the disappointed bidders. The buyer would seek the best article at the lowest price, unrestricted by the usual municipal conditions calculated to hamper his decision and thwart his judgment.

The faults of municipal contracts are not due so much to mismanagement as to the multitude of conditions to be met before a contract can be made, and the troublesome restrictions placed upon its performance after it is made. It can not be gainsaid that the private corporation can buy the same thing at a better price and upon better terms, and can adjust disputed points of performances more quickly and satisfactorily than can a municipal corporation. The parties can go at once to the gist of the difficulties and adjust them according to the judgment of intelligent and experienced arbitrators.

While private corporations are organized and operated for profit, and always have profit in view, the service rendered should be better and rates charged be more reasonable than the service and rates of a municipal corporation which attempts to perform the same work or furnish the same commodity.

If faults are found in the service or charges of private corporations, the cause should be looked for in the ordinances or laws granting the franchises, rather than in the management or operation of the private corporation.

The city of Philadelphia for years owned and operated a municipal gas-works, which eventually became an asylum for broken-down political heelers, and for some who were not broken down. The evils of municipal control shown in the poor quality of gas, indifferent and slovenly service, high prices, and large annual losses in the operation of the works, became so great that many of the people of this truly good (?) town,

prayed that some one might be permitted to take the city gas-works from municipal control, even if they had to steal it, and thus get rid of an incubus which political inefficiency and greed had fastened upon them.

In course of time, the gas-works were leased to a great and powerful company which shortly overcame all the difficulties formerly surrounding the municipal gas-works, and gave to the people better service at lower prices, in addition to making an annual payment to the municipal sinking fund of several hundred thousand dollars, increasing from year to year, which was used to extinguish the overwhelming debt created by municipal control of the institution.

A certain city in the United States was about to construct large and necessary improvements in its water-works, after plans and estimates had been prepared by engineers not under municipal control. A syndicate of capitalists agreed to construct the works within the estimate of cost and time. It was found, however, that the law would not permit of the construction in this way, and that the work must be carried out under the management of the municipality, with the natural result that the cost has been exceeded by nearly seventy per cent and the time exceeded by one hundred per cent, with the works unfinished to-day. The parties who proposed to perform the work were men who had driven railroads over mountains, across broad rivers, and through the trackless wilderness, who know the exact value of materials and labor, and how to obtain the best results at the lowest prices, and who could not afford to tolerate extravagance or delay, because their profit depended upon quickness of action and certainty of results.

Extortion by private corporations should not be tolerated, and a reasonable appeal to the courts can be relied upon to prevent or remedy this. Public utilities under private control should be allowed an income which will represent a reasonable profit on just capitalization and honest and efficient management, and more than this can not be obtained, if the people are alive to their interests. It is always possible to compel satisfactory service at reasonable prices from private interests, and no one appreciating the value of his property can afford to antagonize the people upon whose good will and patronage his success depends.

ARGUMENTS AGAINST MUNICIPAL OWNERSHIP[1]

There are two sides to most questions, and municipal ownership is no exception to this rule. There are situations in countries having a form of government different from ours, where graft is not an epidemic disease, and where public ownership and operation may be successful; but even there opinions differ. In Great Britain it has run its course, and there is a reaction in public opinion against "municipal trading," as it is called there, just at a time when many well-meaning persons in this country, as well as professed Socialists and their organs, are advocating it here.

In a country with universal suffrage, it is desirable to limit the number of public officials to the smallest possible number, for political reasons; and there are also economic reasons which apply especially to lighting, traction and other public-service corporations which are large buyers of materials, employ large numbers of persons and require a high order of administrative ability. Indeed, water, a natural product, which runs down-hill and is distributed with a minimum of labor and expense, is about the only public necessity justifying public ownership in this country, and even in this there are exceptions.

Nothing can be truer, as a rule, than that "public-ownership waste exceeds corporate profit;" supplement this with the even more important political considerations, and thoughtful citizens may well hesitate to favor the present Socialistic fad of municipal ownership. It advocates play upon public prejudice, and claims economies for public ownership which do not exist.

Public officials where municipal plants have been established are naturally interested in making a good showing and holding their easy jobs; in many instances, their bookkeeping omits interest, taxes, depreciation, sinking-fund for renewals or improvements, and other items which a private corporation must recognize. The taxpayer is a convenient beast of burden upon which to unload deficits, and he in turn unloads on rentpayers where he can. Under public ownership, new inventions, improvements and extensions are ignored. Under private ownership, the best professional talent is employed at salaries unheard

[1] By F. B. Thurber. North American Review. 182:855-60. June, 1906.

of in public employment, and all these improvements are at once utilized, giving the public an up-to-date service.

Individual initiative and energy, coupled with the cooperation of many small partners in corporations, has made this country great; and I cannot believe that the municipal Socialistic propaganda will largely prevail if the facts are properly presented to the jury of American public opinion.

As illustrative of the above points, I cite a few opinions of others, taking up first:

Political Objections

"The Evening Post" (New York) of March 8th, 1905, in an editorial on the strike in the Subway and on the Elevated Railway, entitled "Some Lessons of the Strike," said:

"Nor can we omit to point the warning which the strike furnishes against municipal ownership of a great transport system. One thing which the infatuated strike-leaders have steadily counted upon is Mr. Belmont's political involvements. They have repeatedly raided him in the confidence that he dared not antagonize 7,000 voters. Now, imagine the city itself—that is, a Mayor standing for reelection—running all the transportation lines. Fancy 12,000 or 20,000 motormen and conductors directly in the pay of the municipality. What demands should we not see made, what threats indulged in, what political appeals made and terrorism exerted! From what is going on in the green tree of ownership by a politician, we may infer what would be done in the dry tree of ownership by an Administration dependent on universal suffrage. We had best look twice at that fire before jumping into it out of our present frying-pan."

The "Chicago Evening Post" of September 15th, 1905, in an editorial, entitled "The Bridgetender's Rake-off," shows how municipal ownership and operation work in Chicago. It said:

"As the taxpayer reads the facts and figures presented by the 'Evening Post' of yesterday regarding the salaries paid to the city bridgetenders, he will be particularly impressed by the 'rakeoff' that goes to the occupants of these 'soft snaps'—the amount of money drawn from the city treasury that is not earned.

"The taxpayer who knows little about practical politics will wonder why a man should be paid $3,400 a year to look after a bridge, pay out about half of this to have the work done, pocket the other half and devote his time to running a saloon or some other purely private matter. He will marvel that a bridgetender, who at most is nothing but a motorman, should draw several times a motorman's pay, yet do no part of a motorman's work.

"There is not a bridge in Chicago that should not be handled at an outside cost of $3,000 a year—considering that three or four months the work of attending to bridges is merely nominal. It has been shown that one bridgetender is clearing $155 a month out of his $2,700 salary; another is pocketing $1,840 a year out of $3,400; still another is netting fully $1,000 annually out of his $283.33 a month.

"This is a reckless way to play with the people's money. Even the city authorities who are responsible for the salaries and the selection of the men to whom they are paid show they are ashamed of the whole 'grafting' business by their reluctance to let the people scrutinize the bridgetenders' pay-roll.

"The shameful condition so fully exposed by the 'Evening Post' should be changed without delay. The Mayor and City Council ought to join

hands in a bit of reform that would be immediately to the benefit of the public treasury. The Mayor should limit the number of bridgetenders to actual requirements, and he should see that every man earns his pay. The Council should limit the appropriation for this work, so as to leave no opportunity for grafting.

"The bridgetender should be required to attend to bridges, to look after them thoroughly. He should have no time for practical politics or for running a saloon. And for this work, faithfully done, he should receive a fair salary.

"Stop this bridgetender's graft. Cut out the practical politician's rake-off. Mayor Dunne, who proposes to bring the street railroads under the same management as the city bridges, should be particularly anxious first of all to reform this especially glaring evidence of loose municipal operation."

As illustrating how persons who know only one side of a question change their minds after seeing the other side, the following editorial, entitled "The Conversion of the Scot," from the "New York Times" of June 15th, 1905, is pertinent:

"Mr. James Dalrymple, Glasgow's managing expert of tramways, hailed and imported by the 'Lord Mayor' of Chicago and the Municipal Ownership League of New York as the high apostle of municipal-run street railways, has experienced a conversion and given his adorers a chill. His change of prospect from the fair municipal landscape of Glasgow to the political bogs and quagmires of Chicago is marked by the following two utterances, the first delivered just after Mr. Dalrymple landed and was hugged by the Leaguers in this city, the other on his way back on Tuesday *via* Philadelphia:

BEFORE

"I see no reason why Chicago, or any other city in this country, should not be able to own its street railways, and to run them with as much success as we have achieved at Glasgow. I admit that the proposition at Chicago is a much larger one than the one we had to tackle, but at the bottom it is the same.

"The people of Glasgow would not go back to the old days of private ownership for anything in the world. I am not saying that a company would not do as well by the public. I know, in fact, that it could, but it would be doing so with a somewhat different end in view. For a company has always the shareholders to consider. And I have to admit that you will find people in Glasgow to-day—quite influential people, too—who say that the street-car service is not profitable."

AFTER

"To put street railroads, gas-works, telephone companies, etc., under municipal ownership would be to create a political machine in every large city that would be simply impregnable. These political machines are already strong enough with their control of policemen, firemen, and other office-holders.

"If, in addition to this, they could control the thousands of men employed in the great public-utility corporations, the political machines would have a power that could not be overthrown. I came to this country a believer in public ownership. What I have seen here, and I have studied the situation carefully, makes me realize that private ownership under proper conditions is far better for the citizens of American cities."

Economic Considerations

The experience of the City of Philadelphia with her gas-works is interesting, because she has both operated and leased them; and the results have a bearing upon both the political and economic phases of this subject.

For many years, the city owned and operated its gas-works, with the result of high prices, poor service and the gradual development of a political ring which robbed the city and practically dominated its politics. This grew so intolerable that, ten years ago, the works were leased to the United Gas Improvement Company. Hays Robbins, in an article in the "World of To-day," December, 1904, says:

> "During the late seventies and early eighties, the waste and mismanagement under this [municipal operation] system became so scandalous that public-spirited citizens, notably the well-remembered Committee of One Hundred, dared the power of the gas ring and fearlessly exposed its shameful record. Professor Bryce says that this ring controlled no less than 20,000 votes, using them most effectively to prolong its corrupt rule."

The result of the lease to the United Gas Improvement Company has been to improve the service, lower the price and give the city a yearly revenue of $650,000, as against an average yearly deficit under city management of $239,000.

The candle-power under city management averaged 19.17; under the Company management it has averaged 22.88. Thousands of service connections which were worn out or inadequate in size to supply sufficient gas have been renewed, convenient stations for the payment of gas bills furnished, and the plant brought up to the highest efficiency.

But, while accomplishing this great gain by taking the gas-works out of politics, the city did not entirely escape the evils of municipal ring rule which developed in other directions, and has only recently been broken by another uprising of citizens. Some people have inferred that the recent political revolution in Philadelphia had something to do with the gas business, but it was only in the sense that the political ring controlling the city, needing more revenue to carry on extravagant and fraudulent public improvements which they had inaugurated, approached the United Gas Improvement Company with an offer to extend their lease, provided the Gas Company would raise $25,000,000 for the ring to carry on the city improvements which were under way. After a long negotiation, the Gas Company consented to a contract which good judges believe would (if the money could have been honestly expended) have been advantageous to the city as well as to the Gas Company. But the abuses of the municipal ring had become such a stench in the nostrils of the community that the public revolted and the ring was smashed. So far, however, as the relations of the Gas

Company to the city are concerned, they have been entirely satisfactory, and it will be a sorry day for Philadelphia if the city should resume municipal operation of its gas-works. Municipal ownership is one thing, municipal operation another.

"The Times" (London) recently indicated the result of municipal ownership and operation in England, in a series of articles under the title of "Municipal Socialism," from which the following paragraph is quoted:

> "Such was the fashion, however, in which the work was done that it was aptly described by one alderman as 'the municipalization of laziness.' There was little or no control over the men, with whom it was essentially a case of 'go as you please.' One or two members of the Council who had been builders went one day to see how a certain work was progressing, and they found that two men had been for three weeks on a job which one man ought to have finished in three days. In such circumstances as these, the cost of work went up necessarily. The work's manager estimated, for instance, that certain renovations to be carried out in the Stratford Town Hall by his department would cost nine hundred pounds sterling; but, though nothing more was done than he had allowed for, the bill came to two thousand pounds sterling."

It is natural for public officials to try to make a good showing in their accounts in order to justify themselves, and therefore many items which private corporations have to recognize are often omitted. How it works in England is shown by Mr. John Holt Schooling, an eminent authority, in the "Windsor Magazine," for January, 1905. The following is a summary:

Undertaking	No.	Capital.	Annual Result Claimed.	Correct Result.
Gas	97	£24,030,000	Gain, £394,825	Loss, £1,647,725
Electricity	102	12,510,000	Gain, 11,707	Loss, 1,075,057
Trams	45	9,750,000	Gain, 99,318	Loss, 729,432

The department of Commerce and Labor of the United States Government has issued an interesting report upon the relative expenses of private and municipal electric light and power plants. The year covered s 1902, and the figures as follow:

	Private Stations Per cent	Municipal Stations Per cent.
Salary and wages	29.9	35.8
Supplies, material and fuel	32.6	46.2
Rent, taxes, insurance and miscellaneous	18.2	8.4
Interest on bonds	19.3	9.6
Total	100	100

Watered Stock

A principal grievance of the advocates of municipal ownership is that private corporations water their stock, and that this entails an additional burden upon the community. While this may be true in some instances, it is not true as a rule.

The Hon. Chas. G. Dawes, formerly Comptroller of the Currency, well summarizes the facts in the following words:

"Stock in the modern corporation represents, not only ownership, but the location of control. The stockholders of a corporation unanimously desire permanence of control in a certain set of men, in which event they might find it impracticable to have stock issued only in an amount equal to the cash value of its property. The notion that stock is always watered to sell or to perpetrate some fraud is erroneous. The public is not necessarily injured because stock at par does not always represent an equal amount of cash or its equivalent.

"Varying values in corporation assets are reflected in the selling or market value of the stock—not by constant alterations in the stock issues themselves. Dishonest men may, and do to some extent, use watered stock to create impressions of value which does not exist; but the abolishment of watered stock would not materially hinder them. Wrong impressions and overvaluations of stock worth par or above par are created as easily as in the case of watered stock worth less than par, and generally by similar methods. Stock exchanges, through the improper manipulation of operators, are frequently used to create wrong impressions of stock alues; but in such cases, and all cases, it is not the water in the stock that causes the chief trouble among unwary investors. It is the water in the prices they pay for it. And that kind of water may be found at times irrigating with remarkable impartiality purchase of stocks at all prices above and below par."

This is emphasized by the Hon. M. A. Knapp, Chairman of the Interstate Commerce Commission, who, in a paper before the American Association for the Advancement of Science, said:

"If common assertion is well founded, the body politic is afflicted with a grievous ailment which takes the name of 'trusts.' Those who diagnose this malady—and nearly every one professes ability to do so—declare that one of its worst and most aggravated symptoms is over-capitalization, or 'watered stock.' For this and other manifestations of the disorder the favorite specific just now is publicit-.

"With all deference to those who advocate such publicity as a preventive of stock-watering, I venture to doubt the correctness of their contention. Indeed, my scepticism goes to the extent of questioning whether over-capitalization, as such, is a matter of real gravity, much less a portentous evil which demands an extraordinary remedy. I hold it unproved that the excessive issue of corporate securities is a source of such danger as to excite alarm, and I am yet to be convinced that enforced publicity will not be a harmful exercise of public authority.

"Leaving out the speculator, and taking into account only those seeking honest investment, ten times more money, to say the least, has been sunk in farm mortgages, suburban lots, patent rights, buying and selling grain, cotton and other commodities, where no corporate shares were dealt in or even existed, than was ever lost on account of the fictitious or excessive issue of corporate securities. If the State is to assume the function of keeping folly and cupidity from paying twice or ten times what a thing is worth, it surely would assume the guardianship of the largest numbers and the heaviest losers."

The foregoing applies to the interest of the investor as affected by watered stock. As regards the interest of the consumer of public utilities, the watered railroad carries at the same price as the unwatered, and the watered gas company sells its product at the same price as the unwatered one. There is a thought in this connection which may not have occurred to everybody, and that is that, even if watered stock is a medium

through which promoters do sometimes make profit in one way or another, are they not entitled to a profit? Would our railroads and other public utilities have been built if there had not been a profit to promoters beyond six per cent. upon the actual investment? Some men put their money, labor and time into transportaton; some into real estate. Transportaton made the real estate valuable. It saved time for the general public and promoted their comfort; yet the men who have grown rich through increased values of real estate are honored, and those who have grown rich through transportation are denounced as "franchise grabbers" and "public robbers." The same is true of lighting, telephone and other corporations. It appears that to grow rich through rendering the public a service is a crime, while to grow rich without such service is honorable. How many of us appreciate that "corporation" means "cooperation" and that the captains of industry, backed by many small partners (stockholders), are doing a great work?

The advocates of municipal ownership and operation claim, first, that it would be a relief from present political corruption, second, that profits would be realized for the public which are now absorbed by corporations. I believe that political corruption under municipal ownership and operation would be infinitely greater than at present, and the expected profits would turn out losses, to be borne by taxpayers. I have stated facts and opinions in support of this belief. I could add many others if space permitted.

There is a large and growing class of citizens who believe in "a square deal," for everybody; that government should protect life, property, health and education, but that in a country with universal suffrage the number of political employees should not be unduly increased; that the line should be drawn between public ownership and public administration, that in a manufacturing or transportation business public administrative waste exceeds corporate profit, and political dangers are greatly enhanced; and that Individualism as distinguished from Socialism should be encouraged.

COMPARISON OF THE COST OF STEAM POWER IN MUNICIPAL AND PRIVATELY-OPERATED PLANTS[1]

During the past few months I have had occasion to collect statistics on the cost of steam power, and in support of the claim of better management by private corporations, advanced in this paper, it is found that even in the few cities having the highest type of triple-expansion pumping engines, and accessories to match, and in which the contract test and annual duties of the machinery are the best ever attained, the cost of power per year is greater than in the large well-managed steam power plants, owned and operated by the private electric and manufacturing corporations, and a comparison of statistics divided as to cost of fuel, labor, repairs and stores, show the excess cost to be principally in the item of labor.

In the following table, the figures represent the annual costs per indicated horse-power of prime movers: Coal figured at $2.50 per ton, excepting Hamilton, $2.20 per ton. City Water-Works, and Philadelphia Power, 8,760 hours; Pittsburg Power, 8,666 hours; Hamilton, 8,000 hours.

Nature of power.	Fuel.	Labor.	Repairs.	Supplies.	Total.
City pumping works..... (1)	$15.70	$24.62	$5.96	$2.74	$49.02
City pumping works..... (2)	17.44	25.19	5.25	2.58	51.48
City pumping works..... (3)	16.70	24.01	1.28	2.05	44.04
City pumping works..... (4)	16.75	21.90	1.85	1.88	42.38
City pumping works..... (5)	16.82	26.19	1.17	1.59	45.77
City pumping works..... (6)	21.39	15.64	9.62	1.24	47.90
City pumping works..... (7)	18.89	.....	4.14	....	50.03
City pumping works..... (8)	27.64	26.44	9.55	5.44	69.08
New York ..... (9)	25.55	13.13	5.90	1.42	46.00
Philadelphia .....(10)	20.51	6.61	1.52	1.32	29.96
Pittsburg .....(11)	19.51	4.42	3.55	2.50	29.97
Hamilton .....(12)	16.90	5.18	0.88	0.64	23.62

It is interesting to note that the total cost of power by a private corporation, No. 12 on the list, is less than the cost of labor alone in the city water-works power, Nos. 1, 2, 3, 5, and 8. The figures are from the last annual reports. The costs of labor, repairs, and supplies are not known in detail for No. 7, but can roughly be stated as $25 for labor, $4.14 for repairs and $2 for supplies.

[1] By John W. Hill. Engineering Magazine. 34:509-11. December, 1917.

In each city pumping station, the engines considered are from the best known and highest class builders, and the water-works profession is accustomed to point to the cities considered as examples of excellent water-works management.

The average cost of labor in the eight city power stations is $23.62 per indicated horse-power per year for 8,760 hours, while the average cost of labor in the private corporation stations is $7.33, or about one-third the cost of municipally-owned and operated stations, or to state the matter in different form, the city uses three men to do one man's work.

Engineers generally recognize the modern high duty triple-expansion pumping engine as the highest type of steam power, and the service of pumping at constant speed, against a steady head, to reservoirs, the 'optimum' condition for high running duty. Moreover, the long runs of pumping engines, without interruption for Sundays are calculated to favor the annual economy, when compared with steam engines working under a constantly varying load, and, in all but traction and electric lighting stations, stopped altogether for Sundays and holidays.

The duties obtained on the trials of Engines 1 to 6, inclusive, are the highest in the history of pumping machinery, a fact well attested by the annual charge for fuel; indeed the fuel costs, on the average, are as good for the city-managed works, as for the private-managed works. But when you come to the labor charge, there is where the politician comes to the front in great shape. There could be no political advantage in being wasteful of fuel, but there is a decided advantage in future elections in being wasteful of labor. Two men can cast two ballots, and three can do better, while the coal burned in the furnace cannot vote, and there is therefore no advantage in being prodigal with it.

After allowing for the favorable conditions of modern water-works steam pumping service, even then the cost of power in the best private works is less than in the best water-works under municipal management.

Instances can be multiplied of power costs under municipal and private control which will verify the low cost of labor for private control and the high cost for municipal control. And if compared on the volume of business transacted, it can be demonstrated n almost any if not all cities that the cost per unit of work performed or business conductedismuch greater for public than for private business.

The least objectionable of public works which can be conducted by the public are the building and maintenance of sewers and sewage disposal works, the cleaning of streets and the collection and disposal of garbage, although in some large cities this work is now the subject of annual contract. Waterworks, electric and gas works, trolley lines, and steam and hot water heating systems, works employing large numbers of people, and requiring skilled assistance, should be the subject of private construction and control under contract or franchise which will properly safeguard the interests of the public and prevent extortion or poor service.

Cities have been and can be robbed by public service corporations, but only with the aid and connivance of public officials. Standing alone, the public service corporations will be compelled to meet the obligations imposed on them by their franchises, and give the public the required service at fair rates. The legislature can pass laws and the city councils can pass ordinances giving away public rights, and the public service corporations may be the beneficiaries thereby, but the officials chosen by the people to represent them are the culpable parties in such transactions.

AMERICAN MUNICIPAL SERVICES FROM THE STANDPOINT OF THE ENTREPRENEUR[1]

The people of the United States have been said to possess great confidence in machinery. This is a characteristic quite as much of our political as of our industrial life. An example of the latter fact is the popular attitude toward public service corporations. The average man reads of monopolized industries, with their manipulations of prices and arbitrary charges for equal services, and at once looks to a new set of political machinery to eliminate the evil. He concludes that public service corporations are monopolistic in character and that the only way to cure the abuses connected with them is to summarily abolish the order of things that made the abuses possible. When the local services are poorly managed he seizes upon accounts of the successful management of similar enter-

[1] By Chester Lloyd Jones. Annals of the American Academy. 28:371-84. November, 1906.

prises by public officials in distant countries and decides that the remedy is to adopt the same system at home. This attitude of mind is brought about by drawing too uncritical a contrast between what exists under widely different conditions in a foreign country and the actual management of the home services. The assumption is made that the same political machinery will work the same results at all times and in all places. Instead it should be realized that the time and place are ordinarily the elements immensely more important, and that these being in an ideal condition the method of management becomes a comparatively unimportant matter. Given perfect conditions, and the discussion of the superiority of public or private management of the public services becomes purely academic, but so long as perfect conditions do not exist there is an opportunity for an honest difference of opinion as to the relative advantages of the two methods.

In the minds of all the chief question in the management of the public services is how to secure the greatest efficiency. Putting aside, then, the purely academic question of whether public or private capital should manage public services, it becomes simply a problem of solving which of the two methods under the condition surrounding the particular enterprise gives greater promise of securing good results. Too much stress cannot be placed upon the fact that in choosing between any systems of managing the public services the community in which they are placed is an inseparable element in the problem.

It is largely from this point of view that the public service corporation in the United States claims that its administration of the public services is superior to that by public officers. It is asserted that under present conditions private management brings better net results—the claim of greater efficiency. That the government has a right to regulate the action of public service corporations is no longer a subject of dispute in the law of the United States. The right of the state to go even to the length of appropriating the services to itself in return for just payment to the owners or lessees is unquestioned, but if such action is taken it should be dependent on the advantages to be gained and not on the basis of sentiment or prejudice.

From the standpoint of the entrepreneur public services may be divided into two classes, according to the degree of professional skill necessary to their management: First, there are

those which, after the original construction is completed, require only ordinary manual labor and a fair degree of executive and clerical ability to keep them in efficient condition. Such until recently has been the character of the work of street cleaning in even our large cities. In the management of services of this character but little difference need exist between public and private operation. A fairly able manager at the head and a fair devotion to duty by the staff should produce passable results. At the other extreme stand those branches which demand a high degree of executive ability, good commercial judgment and a great technical skill to secure satisfactory results. Such are the gas and electric lighting plants and the transportation systems which have come to play so important a part in our municipal life. It is very evident that the majority of our public services approach the latter class much more than the former, and it is to the consideration of such enterprises that we will chiefly turn our attention.

The entrepreneur insists that under present conditions a system of public management varies in success inversely as the complexity of the organization necessary to render the service. The chief points of superiority claimed for private management are as follows:

First, the effect of the desire of gain upon the management. It is all important to secure some force which will affect the entire administration with a desire for efficiency. Any element which fails to contribute to the sum of efficiency of the plant is a dead weight, a hindrance to the earnings of the company and lessens the quality of the service performed. The strongest stimulating influence which can be easily brought to bear upon the average man is the desire for gain. If this force can be enlisted on the side of efficiency the battle is won. There are many reasons why this is much easier of accomplishment under private management than under public officials.

The continual shifting of political parties and of the men in influence in the same party has prevented the development in our cities of a corps of municipal employees who can feel confident that faithful work brings permanence of tenure, and that greater ability insures more rapid advancement. The disintegrating effect of short terms and insecure tenure of office is evident in all ranks of service, from the heads of departments to the day laborers. Since the tenure of office is but for a

brief period and political fences are constantly in need of repair, there is every temptation on the part of the mayor and the heads of departments under him to use the means in their hands for their continuance in office. Manipulation of the mu-unicipal patronage can be practiced without causing important protest. Even if the public services suffer in no other way from this influence, their management is bound to be in more or less constant flux from changes of party or changes within a party.

The lower officers and laborers, too, feeling that in any case their term must be short, cannot but be susceptible to the thought that while the opportunity lasts the best must be made of it. A temptation to make the most of an easy job at good pay is always present, and there is a strong possibility that the money interests of the municipality will have to suffer as a consequence. To say the least, the chance of advancement and permanent tenure being removed the feeling comes to the laborer that the position will last in any case as long as the term of office. The next election brings him an even chance of getting his work back again, but long and faithful service gives him no claim to preference. The security of his position depends rather upon his loyalty and services to the party than to the city's interests. His political activity becomes more important in his eyes than his industrial duties, and this attitude inevitably leads to a disposition to "sit down on his job."

Another disadvantage that the short term of office brings to the publicly-elected manager of the city services is that, no matter how anxious he may be to serve the municipality creditably, he hardly has time to become familiar with his duties when he is turned out of office. The branches of a large city service are so many and intricate that it would take almost a whole term for the new official to become truly acquainted with the department it was his duty to manage.

As a general rule the man elected has much less experience in management of work similar to that over which he is to preside than would a man chosen to manage a private business of the same size. Take, for example, the management of a big city gas plant or street car system. What guarantee have we that the popularly elected chief will have seen the service in the lower positions in a similar enterprise which would be required of one put in charge of a like concern privately managed? We

are not here concerned with the question of whether or not the public can ever be impressed with the necessity of electing experienced men to manage their public services, but simply with the *fact* that the history of American municipal enterprises does not prove that they regularly do so, while the history of privately managed services shows the adoption of that practice.

The public officer has generally less technical training than the one selected under private management. The very circumstances of American municipal politics at the present time, where the salaries of the offices and the patronage connected with them constitute the chief legitimate reward for political service, make it highly improbable that the more important offices connected with the publicly-managed enterprises will be given to men who have not taken an active part in securing the success of the party in power. This so narrows the number of men specially fitted by education who are also apt to be selected for the offices by the political party as to practically eliminate the class entirely. Further, the really first-class man would not only be thus debarred, but as a rule would not accept the position if offered because of the better opportunities obtainable in the field of private enterprise. Under these conditions the public services must operate at a disadvantage. It means that as a rule the man who is at the head of the work is not a master of the technique of operation in his department. He must rely upon his subordinates for advice and information which he should himself be in a position to give. He cannot see so clearly what should be done, and adopt a firm and consistent policy to carry it out.

These are the disadvantages of public management when the heads of departments are chosen directly by the people. Appointment by their political representative, the mayor, or election by councils or by a combination of these methods, has much the same effect. A greater independence of selection may sometimes be obtained, but the controlling influence is more apt to be politics than efficiency. Even if the appointed officer wishes to maintain an independent attitude, to carry on the operations of his department on strictly business principles and to keep his selection of employees free from any but industrial considerations, he can hardly expect to carry out these plans. Councilmen will unfailingly urge upon him the employment of this man and that, regardless of whether additional

help is needed or not. The temptation to create a position for such an applicant or to discharge some one not possessed of political support is great. The head of a department knows that his plans for keeping up a high standard of efficiency are first and last dependent upon receiving adequate appropriations from councils. To get out of sympathy with the representatives would be to antagonize the very body upon whom he must depend for his resources. He is thus placed between two fires—he must choose between allowing politics to enter into the management of his labor account or he must run the risk of creating hostility or at least lack of interest on the part of councils. As a rule the head of a department chooses what he considers the lesser of the two evils and surrenders his labor account to exploitation. The door once opened, it is almost impossible to check the advance of politics, and the would-be impartial director finds himself forced into the active campaign. This picture is not an exaggeration, as is proven by the experience of many cities. In practice we find that the appointive head, though he may often have the advantage of experience over the officer directly elected works under no less a disadvantage than he. The management of the Philadelphia gas works illustrates the case. Though the chief was appointed and at first made a show of independence, his forced reliance on councils soon reduced the department of gas to a mere wheel in the machine.

Providing that the management of city services is under the charge of boards elected for so long a term as to constitute practically permanent bodies a greater independence of action may reasonably be expected from the members, but the appointments are still bound to be sought by and as a rule, given to the men who have rendered yeoman service to the party rather than to those who have the best experience and technical training. The limited possibilities in the way of salary remain the same as where the officers are elected. Even granting that the officers are well qualified when elected or appointed to the permanent board they have not the same incentive as when working for a personal employer. The loyalty to the municipality is not, with notable exceptions, as keen as the loyalty to the private employer. The officer is almost sure to hold his position for the full term even if no great efforts for improvement are made, and that fact—all unconsciously, perhaps, but none

the less surely—lessens his efficiency as compared to the man who realizes that his position and advancement depend upon his best efforts every day and his being up with the times in his plans for extension and improvement.

Even when the head offices are filled by the members of a permanent board there still may remain the management of the employment list on the spoils principle. This of course means that the larger portion of the service is left under the same disadvantages as before described. These, in brief, are the conditions which put the personnel of a publicly managed city service under a disadvantage as compared to private enterprise. In order to bring the two more sharply into contrast, let us review the similar points as shown in an average private corporation. Here, again, the comparison is not between what should be and what is but is based on present conditions in the United States.

Those at the head of the private company are responsible to the stockholders much more directly in fact, however it may be in theory, than are our public servants to the people. They have greater reason to believe that their offices are permanent during good behavior. Efficiency is the chief claim to permanence of position and exceptional ability is rewarded by rapid advancement. No time is wasted in non-industrial pursuits, such as caring for the party fortune in the employee's own ward.

Secondly. Experience and technical training are at a premium and are definitely sought after from first to last. The salaries are higher than in public enterprises where the officer's responsibility is the same.

Thirdly. There is continuity of policy. The company cannot be carried along on any but sound business principles. The consciousness of the permanence of the interests involved makes the directors less prone to adopt a policy which would temporarily bridge over a difficulty at the cost of increased expenditure later on. There is no temptation to conceal the state of affairs "until after election," as must often be the case where party interests clash with those of the public interests.

Besides the disadvantages connected with the personnel of management and operation there are other limitations of municipal administration. In the management of the finances of the public services the city is distinctly handicapped. The administration of any large corporation is subject to occasional demands for large amounts of money which cannot always be

foreseen. Such are the unusual expenditures caused by accidents or the necessity of making an important addition to the plant at once. To meet such a condition is difficult for most of our cities. An emergency fund large enough to cover such demands would prove too easy a source of income to be placed in the hands of the ordinary authorities. Such a practice would soon lead to appropriations for "extraordinary" purposes which would come to be counted upon as a regular source of income for the department.

To make the appropriation rest on special action of councils also would be a possibility, but would not be entirely satisfactory. Councils are not always easily convinced of the advisability of an expenditure even when it would appear an imperative necessity to even the casual observer. Reluctance to incur the criticism through running up the tax rate or desire to spend the available money on some more brilliant but less necessary project has defeated many excellent and imperative improvements and extensions in publicly managed city services. Even if councils realize the advantage or need of certain changes it may be impossible for them to grant the money, though they wish to do so. Many of our cities also have already reached the statutory limit of indebtedness and it would be impossible for them to raise the money needed to meet any largely increased demands upon the treasuries. Thus the improvement, though it might be all important to have it made at once, would have to be postponed until the legislature could, by special act, allow the city to increase its indebtedness. Whatever method of solution is adopted it seems clear that the city is at a distinct disadvantage in meeting unusual demands which may be made upon it for maintaining its public services at their highest efficiency.

A private company in a similar position experiences no such hindrance. A good financial risk can easily secure immediate command of capital, and does not have to go before a local or state legislature where conflicting interests may delay if not defeat the needed appropriation. The financial interests of those managing the company also prompt them to be on a keener lookout for any unusual demand which may be made upon them. They hold a better chance of foreseeing the necessity for extensions, alterations or improvements, and have better facilities for meeting the situation when it comes.

Much of the writing denunciatory of private management of public services is based on the evil effects of the influence of corporations in politics. Many would be willing to concede the superior efficiency of private management in general, but insist that all the advantages gained through such administration are much over-balanced by the corrupt practices due to intrigues in the local legislative bodies. The evils connected with attempted franchise grabbing are so great, it is asserted, that the only way to abolish these influences is to effectively take the services out of politics by putting them under public management absolutely. Such arguments are based on the assumption that political influences are removed by delivering the services into public control. Politics are to be removed by placing the management in the hands of politicians. Thus stated, it becomes clear that the adoption of control by the public does not necessarily mean all it seems to indicate. As a matter of fact, under present American conditions, politics are a permanent factor in the management of public services whether under private or public operation. The patronage wielded by public officers is no whit less an important factor in local politics than that exerted by the franchise-holding companies. Beyond a doubt such influence is baneful—and in the one case quite as much as in the other. Whether we shall be able to develop laws and a public opinion which will eliminate these influences is still a question for the future. Our course of action for the present must be planned with a frank recognition of the existence of such influence and the object of reducing it to a minimum. No one who considers the situation carefully would assert the presence of political influence in the one case and deny it in the other. The best interests of the community demand that whatever system of management be chosen that politics be eliminated. For the good of the corporations also it is beyond doubt to be desired that they should confine themselves wholly to industry. Under present conditions the temptation to enter politics for the defense of their interests is in many cases almost irresistable. Oftentimes these interests may be legitimate and need defence only due to the general prejudice against the management of businesses affected with a public interest by private individuals.

This state of affairs is most unfortunate both for the public and for the entrepreneur. On the one side it produces an acute

distrust of all companies making proposals to do public work. Every proposition is attacked as if it were an attempt to legalize the stealing of public money. The representatives of the people are often prejudiced and unable to consider the purely industrial side of the enterprise in question. Instead of attempting to attract capital while fully protecting municipal interests, they are apt to approach the granting of a franchise in a hostile attitude, and often insist on useless stipulations which are an expense to the company and of no advantage to the community. As an example of such specifications may be cited the requirement made by one of our largest cities that service pipes for gas must be put in every sixteen feet. When it is remembered that such services often, as in this case, extend for long distances along parks and undeveloped districts the regulation appears ridiculous as well as useless.

The lack of sympathy between the public and its servants has an equally bad effect upon the attitude of the latter. Realizing that the spirit of many of those from whom they must get their rights is one of hostility and unreasoning prejudice, they assume the stand that unfair measures may be used to overcome unfair treatment. Once the field has been entered, there is the tempation to extend the company's activities beyond the defense of their legitimate interests to the securing of special and questionable privileges. The influence used to prevent prejudiced or "hold-up" legislation may easily be continued to deaden the convictions of would-be honest representatives. Examples of the use of corporate influence in this way fill all too many pages of the history of American municipal councils. The general result of such a state of affairs is mutual distrust and recrimination.

It must not be supposed, however, that by removing the public services from private management all evils connected with their administration will be at an end. Our American experience demonstrates quite the contrary. The only definite change which necessarily results is the transfer of the influence exerted by the private companies into the hands of the local politicians, an alternative by no means insuring improvement. It is not to be expected that in a country where the rewards of office are the most important object of political struggles, rather than any honor or social position attached thereto, that the large patronage offered by the payrolls of the publicly managed municipal

services would not prove a prey to the ward politician. The chance to secure "jobs" with liberal pay at public expense for the political and personal friends of the successful candidates is too tempting to be resisted. It may, of course, be argued that an efficient civil service would put all the positions of this character out of the reach of the politicans. That is doubtless possible, but the creation of an effective civil service law for the management of the present public positions should be a prerequisite before the city should embark on new and expensive departures in municipal industries. When the cities show the willingness and the ability to create a truly efficient civil service the field may not be so difficult for public administration of the public services, but until such a move is not only advocated but carried out in good faith, any increase in the activities of a city only opens a longer payroll for exploitation by the "boss."

This fact is so patent in the history of American municipal industries that it is worth while to illustrate it from one of the most conspicuous examples—the notorious experience of Philadelphia in the management of her own gas works. Hardly a branch of this now famous experiment failed to show signs of exploitation for political ends.

The first account to be attacked was, of course, that promising the greatest number of positions to clamoring political dependents. This was the labor list in the manufacturing and distributing departments. High wages were paid—twenty-five per cent over the price for labor on the open market. The chief of the gas bureau was constantly besieged by the friends of various councilmen in search of easy work at high prices. The lists were padded with a number of laborers far beyond the actual needs of the plant. So many were there indeed that it is asserted that had all the employees been stood shoulder to shoulder, room could not be found for all of them at one time on the grounds of the plant. Naturally, under such conditions there was shirking of work on all sides, and some favored ones turned up at the works, it was said, only on pay day. The amount of work each had to do varied in accordance with the influence of his friends in councils. Receiving these easy jobs from the political boss, the employees were in turn exploited by him by means of semi-annual "voluntary contributions" to the party in power.

The purchasing and selling accounts were likewise abused. Coal was bought from favored firms only, the residual tar and ammonia always went to a single firm, though nominally sold to the highest bidder. In practice there was but the one bidder. When another bidder on one occasion put in a bid higher than that of the regular contractor the award was not given him "because he did not have the facilities for handling the product." The coke was disposed of through a member of select council. The charges entered under the blanket account of "miscellaneous" exceeded $100,000 a year, and there were large amounts charged against such accounts as "ice," "matches" and "drugs and horse medicine."

The works were exploited indirectly also. Councils were anxious to cut down all appropriations for improvements and extensions in order to turn as large an amount as possible into the treasury as "profits of the works." This would enable them to keep down the general tax rate and have money for more favored plans, but it had a disastrous effect upon the general condition of the plant. Small and rotten mains and service pipes were left unrenewed, thus causing a leakage in some years of as much as thirty per cent of the gas manufactured. Antiquated machinery was kept in use through the refusal of councils to put in modern appliances—a practice which cost the city in wasteful methods of production far more than would have been the cost of new apparatus. Councils even went so far as to cut down very materially the use of the gas for public lighting. In the place of the public gas lamps light was bought at high prices from gasoline and electric lighting companies. These were private concerns in which councilmen and others prominent in local politics were interested.

In a word, the management of almost every branch of the public gas works was dictated by politics Not only the heads of departments, but every employee from the top to the bottom of the labor account threw his whole influence into political affairs. The tenure of the party in power marked the tenure of office of the employees. Such was the experience of Philadelphia in the management of a municipal industry.

It is not contended that this is in all respects a typical case and that the same thing would occur in every detail in all our American cities did they undertake similar services. That such is not the case is proven by the experience of some of our cities

in similar enterprises. But the example is given to show what has actually occurred in one of the most important experiments in municipal ownership in America. The circumstances of other American cities are not so different as to overthrow the presumption that the possibility of similar abuses exists there also, though not perhaps in the same degree as in the above instance. The example is given only to drive home the argument that under present conditions it is entirely possible for politics to play quite as large a part in the management of public services when under public as when under private control.

This being the actual state of affairs, the important question to be answered is: In which way can the connection of the public services and politics be more easily minimized. If public ownership is to be chosen radical measures must be adopted to remove all control of the municipal industries from possibility of political interference. To widely extend the functions of city government, thereby increasing the temptation to abuse of patronage, seems in itself to introduce an element making it increasingly difficult to keep a civil service system on a strictly non-partisan basis.

The other alternative is to elect representatives of such character as to command public confidence and who will be able to guard the city's interests in making arrangements with contracting companies. Each of these methods carries with it the possibility of honest management. On the point of integrity there would be little to choose between the two, carried on under ideal conditions. Improvement over present conditions must in either case come through raising the character of the representatives. A simple change from one set of machinery to the other will accomplish nothing.

The point then is: Is it easier to elect men who will be judges of a fair contract or men who will be able to run our municipal industries at a standard of efficiency equal to the average of private management. The former seems much more easy of attainment than the latter. The chances of our getting by popular vote a man with intelligence to determine the provisions of our contracts seem much greater than our chances of getting men specially suited by experience and education to carry on our municipal industries. The average man can choose work for the carpenter to do and judge the work when done much better than he can do the work himself. Similarly, the

average representative can choose the terms upon which the city will have its work done and can judge whether it has been done according to the agreement much easier than he can carry out the plan himself. If the representatives of the people cannot be trusted to make fair terms with a contracting company how can they be trusted with the entire management of an industrial enterprise?

There is but one limit to the power of the public to regulate the conditions upon which they will give the public services into the hands of private companies—a fair return to capital. What is a fair return is, again, largely settled by the conditions offered in the contract. If the agreement is so strict as to make it impossible to raise the earnings of the company above the average of industrial undertakings in the community then it is clear that the city must hold itself ready to guarantee that the earnings *shall reach* that standard. Otherwise capital will of course refuse to take up the project. In case the municipality, on the other hand, does not care to assume the chance of loss by the company it must be prepared to grant a larger possible rate of return in exchange for its freedom from liability.

Within these limits the city may take all necessary measures to protect its interests in its public services. The more clearly the city evinces its desire to guard its own interests and at the same time to grant to the private company a reasonable rate of income and to protect it from unreasonable interference with that income, the less will be the desire and the temptation of the company to interfere with local political affairs.

Such an agreement would secure to the city all the advantages claimed by the advocates of municipal operation without the increased responsibility of direct management. A municipally-operated plant would in any case withdraw from other branches of industry the same amount of capital as would be employed in the enterprise by a private corporation. The interest on that capital must in the one case just as surely as in the other finally be paid by the community at large.

The choice between the two methods of operating the municipal services must depend not on what may be accomplished under *ideal* conditions, but upon the likelihood of efficiency under *present* conditions.

Under American conditions to-day, then, the entrepreneur would maintain that:

1. The direct responsibility present under private management makes it possible for a higher degree of efficiency to be obtained than under public operation.

2. The stimulus of gain can be made a more powerful element working for efficiency in all branches of operation under private than under public control.

3. The influence of politics upon the public services can be lessened more easily by having the representatives determine the terms upon which the city services shall be let out under contract than by turning the entire administration of the services over to the representatives.

4. By the granting of contracts clearly safeguarding both the interests of the city and the investor the management of the public services may be brought to the highest degree of simplicity, economy and efficiency.

MAIN QUESTION IN MUNICIPAL OWNERSHIP[1]

The chief motive of men in this age is that of self-interest in one form or another. It is not only natural but indispensable to success and progress and needs only to be guided by sound principles. In the expenditure of capital and the exertion of enterprise, skill and economy in any service to the community, and all industry and business is in some sense a service to the community, the main incentive is profit or compensation dependent upon the efforts of those concerned. Men do not exert themselves for nothing, or for their health, but for gain. In providing a direct service like that of furnishing light, electric power or transit facilities which is in its nature a commercial business, the main question is whether men will do it better with their own capital and under their own management, with the incentive of gain for themselves, or by the use of capital supplied from the public treasury, under the direction of public officials with fixed salaries for themselves. Will the public officials nominated by political organizations and elected by popular vote be best qualified to exercise control over the business, and will the men employed by them and subject to their authority be those most capable for the work? Under which condition here suggested are men of special ability, of energy,

[1] Journal of Commerce. July 16, 1907.

of experience and mastery in the business, more likely to be engaged in it? Under which is there more likely to be alertness in extending the business to meet every demand, in adopting improved methods, in economizing cost and increasing results? Reason and experience give the same answer to these questions.

No doubt private self-interest in this service needs to be under restraint and regulation and prevented from making illegitimate gains or rendering inadequate service but its motives cannot be dispensed with without paralyzing the main springs of action in a business requiring expert ability, sustained effort and vigilant direction, such as no political system with which we are acquainted will afford. If the public is to furnish the capital and the credit and take the risks of gain or loss, while the men in charge of the service have no direct stake in it, are not chosen for their experience or fitness and are paid without reference to results, it stands to reason that the practical results will prove costly and unsatisfactory, and experience has verified the dictates of reason in this respect. There has been corruption in obtaining franchises by men seeking the privilege of employing capital and energy in providing these public utilities, but the opportunities and the temptations for corruption would be vastly greater if that business were made the object of political quest and political control. The scandals of the franchise abuses would pale into insignificance in comparison with those of municipal abuses with millions of money and great forces of workmen at command, and the practical and financial results would be more deplorable and more difficult to remedy than those we are already burdened with in the administration of city affairs. No large city in this country has yet gone far enough to demonstrate this, but every step has tended that way. Private enterprise and the motives that give it force need everywhere to be under the restraint of the law to secure rights and prevent wrongs, but it is the most effective power we have, and every effort to displace it with officialism and socialism tends to degeneration.

HOW BOSTON SOLVED THE GAS PROBLEM[1]

While this investigation (National Civic Federation) was proceeding, Massachusetts entered, in connection with the Boston gas supply, upon an experiment, new in America, which may lead to the best practical solution of the public-utilities problem. The new Boston system creates substantially a partnership between the public and the stockholders of the gas company,—a partnership in which the public will secure an ever-increasing share of the profits of the business.

This system has already given to Boston 80-cent gas, although Boston is located many hundred miles from the mines which supply its coal. Eighty cents is a lower price for gas than is actually enjoyed by any other city in the United States, except a few within the coal and oil region, like Cleveland or Wheeling, and Redlands and Santa Ana, Cal. Even in those cities the price is not lower than 75 cents,—a price which Boston may reasonably expect to attain soon. For, during the two years ending July 1, 1907, four reductions in price each of 5 cents have been made. To have reduced the price of gas 20 per cent. during that period of generally rising prices in labor and materials is certainly a notable achievement. The most recent reductions in price were the wholly voluntary acts of the company, made under wise laws framed in the interest both of the public and of the stockholders. The saving to the gas consumer by these reductions was in the first year $265,404.55, in the second year $565,725.60, and will be in the third (the current) year about $800,000.

That this saving to the consumer was not attained by a sacrifice of the interests of the stockholder may be inferred from the market price of the stock of the association which controls the gas company. In the two years following the legislation of 1905, a period in which most other stocks depreciated largely, the common stock of the Massachusetts Gas Companies rose from 44½ to 57½; and even in the severe stock depression of late September, 1907, this stock was firm at 52.

Compare with the results of the Boston experiment the attempt in New York City made at about the same time to reduce the price of gas from $1 to 80 cents by legislative fiat and the

[1] By Louis D. Brandeis. Review of Reviews. 36:594-8. November, 1907.

compulsory orders of the State commission. The New York company contended that the law was unconstitutional; the federal court issued an injunction; the consumer still pays out $1 for each 1000 feet of gas; and the market price of the stock of the Consolidated Gas Company of New York fell during the same period of two years from 200 to 118, and in late September, 1907, to 96¾.

But Boston has reaped from the sliding scale system as applied under President Richards' administration of the company far more than cheaper gas and higher security values. It has been proved that a public-service corporation may be managed with political honesty, and yet successfully, and that its head may become a valuable public servant. The officers and employees of the gas company now devote themselves strictly to the business of making and distributing gas, instead of dissipating their abilities, as heretofore, in lobbying and political intrigue. As a result, gas properties which throughout the greater part of twenty years had been the subject of financial and political scandals, developing ultimately bitter hostility on the part of the people, are now conducted in a manner so honorable as to deserve and to secure the highest public commendation.

The aggregate outstanding securities of the constituent companies had a par value of only $15,124,121 (of which $9,309,600 was stock and $5,814,521 funded debt). But when, in 1904, application was made under the act to fix the capital, the companies claimed that the properties had recently cost the then owners over $24,000,000, that their replacement value was about the same amount, and that the fair value for capitalization should be not less than $20,609,989.99. The Public-Franchise League, on the other hand, contended that substantially any excess in value over the $15,124,121 represented not contributions by stockholders, but accumulations from excessive payments exacted from gas consumers; that in the reorganization of the business such value should not be capitalized; and that the Consolidated Company's capital stock should therefore be limited to the aggregate of the capital of the constitutent companies then outstanding, plus such additional amount of stock as it might be necessary to issue at its estimated market value (which was above the par value) to provide funds for paying off all existing indebtedness. The League deemed the retention of the original capital so augumented of fundamental impor-

tance, mainly because the payment of a high rate of dividend on a small capital issue would tend to keep the public vigilant.

After a long and bitter struggle the gas companies, acting under the enlightened and able leadership of Mr. Richards, agreed, in 1905, with the Public-Franchise League upon legislation which provided that the capital of the consolidated company should be limited to the aggregate par value of the outstanding stock and funded indebtedness of the constituent companies, to wit: $15,124,000; that the maximum price of gas in Boston should be reduced to 90 cents within twelve months after the consolidation was affected; and that the Governor should appoint a commission to consider and report to the next Legislature whether the adoption in Boston of the so-called London sliding-scale system for "the automatic and interdependent adjustment of the price of gas to consumers and the rate of dividends to stockholders of gas companies" was expedient. The favorable recommendation of the minority of this commission, Messrs. James E. Cotter and Charles P. Hall, was supported by the Public-Franchise League and the gas company, and on May 26, 1906, the Sliding-Scale act received Governor Guild's approval in spite of the strenuous opposition of both conservatives and radicals.

The Boston Sliding-Scale act, which embodies with some modifications the main provisions of the system widely used in England, provides as follows:

First: Ninety cents per 1000 feet of gas (that is, the maximum price then actually charged by the Boston company) is made the "standard price" of gas.

Second: Seven per cent. (that is, 1 per cent. less than the dividend which was then being paid by the Boston company) is made the "standard dividend."

Third: The company is prohibited from paying more than 7 per cent. dividend unless and until one year after it shall have reduced the price of gas below 90 cents, and then may increase its dividend at the rate of 1 per cent. for every 5 cents reduction in price of gas.

Fourth: New stock can be issued only with the consent of the Gas and Electric Light Commissioners and must be sold at auction at such minimum price and under such other conditions as the commissioners prescribe.

Fifth: Provision is made for determining annually, and publishing in detail in the newspapers, the cost of manufacturing and distributing gas.

Sixth: After the expiration of ten years, the Gas and Electric Light Commissioners may upon petition "lower or raise the standard price per thousand feet to such extent as may justly be required by reason of greater or less burden which may be imposed upon the company by reason of improved methods in the art of manufacture, by reason of changes in prices of materials and labor, or by reason of changes in other conditions affecting the general cost of manufacture or distribution of gas."

The League therefore urged that the possibility of a large return upon capital offered under the sliding-scale system should be regarded merely as an incentive to securing for the gas business the kind of management most likely to produce and distribute gas at the lowest possible cost, and thus supply an essential prerequiste to cheap gas. Protection against corporate abuses demands for gas companies strict supervision and publicity. Fairness demands that proper compensation be made in some form for the use of our streets. But no self-sustaining system of supplying gas can give to the people cheap gas unless it rests upon high efficiency in management.

The gas business has many of the characteristics of both manufacturing and merchandising. Like other manufacturing businesses, it produces an article for sale. The cost of its product is dependent largely upon the character and condition of the plant; upon the extent to which labor and waste-saving devices are adopted; upon the skill with which raw materials and supplies are purchased and waste or residual products are disposed of; and whether the plant is operated to its full capacity.

To an even greater extent than in most mercantile businesses, the pro rata cost of distribution of gas is dependent upon large volume. The distributing plant requires an exceptionally large investment. But the mains or pipes are rarely used to their full capacity. The interest, depreciation, and maintenance charges are the same whatever the volume of sales. The inspection of meter, and many other charges, increase but slightly with the increase of sales. The pro rata cost of distributing gas diminishes largely, therefore, with the increase in the quantity sold. But, as in most mercantile businesses, the quantity of gas

which can be sold in any of our large cities is dependent mainly upon the skill, energy, initiative, and intelligence with which the business is conducted. The demand for gas is not a fixed quantity. There is, undoubtedly, a minimum quantity which will be used under almost any conceivable circumstances. But limits can scarcely be set to the possible increase of its use in our large cities. Not only is there an ever-growing demand for intense artificial lighting of public places, stores, and residences, but there is an almost limitless field now occupied by electric light, coal, and oil, of which gas is the natural competitor. The limits of the use of gas in any city, therefore, will be set mainly by the skill, energy, and initiative of those who manage the business, and by the extent to which they appreciate the fact that increased use of gas will result from reduction in price, bettering of appliances, and improving facilities.

A management possessing the requisite ability and skill for such a business and which would exercise the requisite vigilance and energy may be best secured by following those lines upon which the remarkable industrial advance of America has proceeded, the lines of intelligent self-interest. Those who manage our gas companies and other public service corporations should be permitted, subject to the limitations stated above, to conduct the enterprise under the conditions which in ordinary business have proved a sufficient incentive to attract men of large ability, and to insure from them their utmost efforts for its advancement. These essential conditions are.

A. The right to enjoy a fair share of the fruits of successful effort.

B. The opportunity of devoting one's whole efforts to developing the business.

C. The probability of pursuing for a reasonable time without interruption such business policy as may be adopted.

MUNICIPAL OWNERSHIP IN GREAT BRITAIN[1]

I. Is It Successful?

For the purposes of this article I shall assume that, in the generation and supply of electricity for lighting, the municipalities of England and Scotland have, upon the whole, been

[1] By Everett W. Burdett. Journal of Political Economy. 14:257-314. May, 1906.

measurably successful in furnishing a fair article at a fair price. Taking all the figures together, Mr. R. S. Hale, of Boston, a competent statistician and engineer, after careful consideration, concludes that there has been a difference in favor of the consumer in the results which have been obtained from the municipal, as contrasted with the private, supply of electricity for lighting—a difference, however, which is not so large as not to be creditable to the companies, in view of the handicaps under which they have been obliged to operate, to which I shall presently allude. Moreover, with the exception of metropolitan London, practically all of the private plants are in very small cities, while the great bulk of the municipal plants are in larger cities.

Another fact to be borne in mind in this connection is that, in some important instances, the showing which municipal plants have been able to make has been materially assisted by the circumstance that the going plants and business of private companies have been taken over by the municipalities, which have thus reaped the benefits of individual initiative and development. This is conspicuously true of Leeds (population 390,000 in 1896) and Liverpool (population 517,951 in 1896).

But the success of municipal undertakings in the supply of electricity for light has been confined to the single feature above named, and has resulted solely to the benefit of comparatively few consumers, and not to that of the general public. It has likewise been accompanied by failures in other directions, to be presently mentioned, which more than counterbalance the single favorable feature above referred to.

There is nothing to show, and there is no reason to assume, that the electric supply in Great Britain could not have been furnished by private companies as satisfactorily and as cheaply as has been done by municipalities, if they had had the opportunity. Where (in a very few instances) they have had such opportunity the results have been about the same or better; and if there are any differences against them, they are amply accounted for by the differences in conditions under which private and public lighting enterprises are by law conducted in Great Britain.

II. Detrimental Consequences of Municipal Ownership

If it be assumed that the public supply of electricity has been

successful in the single particular above referred to, it has been attended with other consequences of a most detrimental character.

I. HAMPERING AND RESTRICTION OF THE INDUSTRY

The first, and perhaps the most serious, of these consequences has been the undoubted hampering and restriction of the growth and development of the electrical industry, as a whole, in Great Britain—resulting, as I shall presently show, from the peculiar manner in which the laws applicable to the subject have favored the municipal and discouraged the private exploitation of the industry.

The backwardness of the development of the electrical industry, as a whole, in Great Britain is, I think, practically admitted on all sides; if not admitted, it is readily demonstrable. So serious was this state of things that in 1902 the Council of the Institution of Electrical Engineers of England appointed a committee "to determine whether they can recommend the council to take any action, and, if so, what action, that would assist the industry." The inquiry was based upon facts set forth in a paper written by Mr. W. L. Magden, published in the *Journal of the Institution of Electrical Engineers,* 1900. The Institution of Electrical Engineers was composed of men connected with both public and private electrical enterprises, seeking only an enlargement of the field, however that result might best be brought about, including such eminent men in the profession as Professor W. E. Ayrton, F. R. S., Major P. Cardew, R. E. Lieutenant-Colonel R. E. Crompton, C. B., Mr. S. Z. Ferranti, Professor J. Perry, F. R. S., Mr. A. Siemens, Professor Silvanus P. Thompson, F. R. S., and others. Their qualifications to pass upon this subject amply appear from the proceedings of the committee, which were published by the Institution.

After taking the evidence of various people competent to speak upon the subject, including both those in favor of as well as those opposed to the municipal operation of electric-lighting and tramway plants, the committee reported:

> That, while taking divers views of subsidiary questions, the witnesses were practically unanimous in their conviction that electrical enterprise has not attained the stage of industrial development in this country which might fairly have been expected, having regard to the many favorable natural conditions, and having regard also to the achievements of British capital, labor, and inventive genius in so many other branches of the mechanical arts.

And among the resolutions adopted by the committee (March 25, 1902) was the following:

> That, notwithstanding that our countrymen have been among the first in inventive genius in electrical science, its development in the United Kingdom is in a backward condition, as compared with other countries, in respect of practical application to the industrial and social requirements of the nation.

These conclusions are amply borne out by the facts in evidence, and others which are readily obtainable. The most striking and convincing figures were submitted by Mr. Philip Dawson, E. E., found on p. 183 of the report. They included the following:

COMPARATIVE APPROXIMATE FIGURES AS TO ELECTRICAL LIGHTING, POWER, AND TRACTION, 1901

Country	Station Kilowatts Available for Lighting and Power	Station Kilowatts Available for Traction	Miles of Single Track Electrically Equipped	No. of Electric Cars Running	Total Electrical Station Capacity in Kilowatts	Population of Country	Total Approximate Capital Invested
Great Britain.....	200,000	50,000	900	2,600	250,000	40,000,000	$35,000,000
Continental Europe...	400,000	154,600	5,000	9,800	550,000	350,000,000	85,000,000
U. S. of America....	1,200,000	800,000	21,000	68,000	2,000,000	70,000,000	200,000,000

Thus it is seen that the United States, with less than double the population of Great Britain, has six times the amount of apparatus installed for furnishing electric light and power, sixteen times as much for electric traction, twenty-three times as many miles of electric railway, twenty-six times as many motor cars, and five and one-half times as much money invested in such enterprises.

2. DISCOURAGEMENT OF PRIVATE INVESTMENT

The limitation of the industry above described has resulted not only in postponing, and in some instances, in excluding, a supply of electricity for lighting and for traction in a large number of cities and towns, but also in the limitation of the investing classes interested in the development of the industry, and in the minimizing of the number and importance of the establishments for the manufacture of the electrical machinery and apparatus which would have been necessary in case of larger development. The latter feature of the situation is strik-

ingly illustrated by contrasting it with the enormous size and importance of such manufacturing establishments in the United States and Germany.

An Englishman has well said:

> The idea of thrift should be encouraged as far as possible. It is of immense national value. . . . The possibility of small investment, and thus an important inducement to thrift, is greatly diminished by the municipality indulging in business which would be carried on otherwise by associations of individuals who would raise capital from the community generally by shares.

Without private capital and skill new industrial enterprises do not receive that impetus and development which they otherwise would. Public officials do not invent, exploit, or develop new things, but leave the field of discovery, initiation, and development to private persons actuated by the hope of large rewards.

Whatever may be the result of the prosecution by the public or its representatives of an enterprise which has been founded and put on its feet by individuals, it is doubtful if any case of successful municipal initiation of such an enterprise can be cited. Individual initiative is always necessary. Sir Richard Webster, then attorney-general of England, called it "the absolute necessity of inventive competition." Water supplies, gas supplies, transportation, electricity, even in England, all owe their initiative to private enterprise. Only twelve important towns in England built their own water-works. Gas supply was in private hands exclusively at first, and it was nearly or quite fifty years before it went largely into the hands of municipalities. Most, if not all, tramway undertakings which are controlled by municipalities today were originally established by private enterprise and subsequently taken over by public authorities.

The same is true of electricity. The towns and cities with gas plants on their hands were literally forced into the supply of electricity to head off private enterprise. But, notwithstanding this, private enterprise started electric companies in London, Liverpool, Sheffield, Birmingham, Nottingham, Newcastle, and other principal towns in England.

3. INADEQUATE DISTRIBUTION OF SUPPLY

The third particular in which municipal supply has worked badly in Great Britain is the inadequate distribution of the sup-

ply in places where supply has been undertaken. This has resulted in the accommodation of the few at the expense of the many. The non-consumer (who is legion) gets no benefit; the consumers (who are comparatively few) get all the benefit. I take it to be an indisputable economic proposition that the character of a public service is to be judged of by its extent quite as much as by its cost. Is is better service, for example, to supply 100,000 people with dollar gas than to supply 10,000 or 50,000 of the same people with 50 cent gas; or to furnish railway facilities to the larger number at 5 or 6 cents, than to the smaller number at 3 cents. Unless public service is available to the greatest possible number, it fails to just the extent that it is not so available. This is strikingly shown, with respect to electric-lighting service, in the number of lamps installed and the number of customers supplied in five characteristic cities in England and Scotland, as contrasted with three principal cities in the United States, by the table following. The figures given are the nearest approximation possible from the available data. The total installation in each case is converted into its equivalent in sixteen-candle power lamps.

City	Population Supplied	No. of Lamps Installed, 16 C. P.	No. of Customers
Glasgow	760,423	403,000	9,324
Edinburgh	316,479	336,000	7,129
Manchester	543,969	300,000	5,171
Leeds	428,953	154,000	3,988
Birmingham	522,182	113,000	2,374
Total.....	2,572,006	1,306,000	27,986
Boston	573,574	1,114,000	15,136
New York	2,050,600	2,846,700	50,000 plus
Chicago	1,698,575	1,500,000	

It thus appears that the private company in Boston alone has almost as many lamps installed as the total number in the two principal cities of Scotland and three of the principal cities of England, outside of London, put together; and is supplying more than half as many customers as those five cities combined. Indeed, the number of customers supplied in Boston is almost as large as the total number of customers of the public plants in Edinburgh and Glasgow combined. With a population supplied one-fourth smaller than that of Glasgow, Boston has

nearly three times as many lamps installed, and over 60 per cent. more customers. As compared with Manchester, with slightly more population supplied, Boston has nearly four times as many lamps installed, and nearly three times as many customers. Taking Edinburgh and Leeds together, with a combined population nearly half as large again, Boston has nearly two and one-half as many lights and more than one-third more customers. If a comparison is made between Boston and the two cities of Glasgow and Birmingham, which are perhaps the most conspicuous among the British municipal undertakings, we find that while the combined population of those two cities is more than double that of Boston, they have between them considerably less than one-half the number of lamps installed, and only about three-fourths as many customers.

If the comparison is made with Birmingham alone, that birthplace of English municipalism, with a population supplied nearly as large as that of Boston, it is found to have only the beggarly number of 2,374 customers, with 113,000 lamps, as against Boston's 15,136 customers and 1,114,000 lamps. The ratio of customers is as one to six, and of lamps as one to ten.

Comparing Boston and corresponding English cities, taken together, it will be found that three times as many people have an electrical supply in the former as in the latter; that is to say, there are thirty takers of electricity in Boston for each 1,000 of population, as against ten takers for an equal population in the English cities.

A very striking illustration of the superior distribution of electrical supply in England obtained by private business management, operating under reasonably favorable conditions, over that prevailing in the public service, is furnished by the two companies in Newcastle. Those companies represent the best development which has been achieved in the United Kingdom, either by private or public undertakings. The figures are as follows:

COMPARATIVE RESULTS OF PRIVATE OWNERSHIP AND OPERATION IN NEWCASTLE, AND PUBLIC OWNERSHIP AND OPERATION IN EIGHT OTHER IMPORTANT CITIES OF THE SAME CLASS IN GREAT BRITAIN

	Population (Approximate)	No. of Private Lights of 8 C. P.	Private Motors, H. P.	No. of Consumers	Average Price to Public, Excluding Trams and Street Lighting	Thousands of K. W. H. Sold to Public
Public plants:						
Dublin	289,000	82,000	220	850	3.58	857
West Ham	267,000	84,000	670	1,004	3.13	1,827
Dundee ...	163,000	72,000	715	1,030	3.52	1,073
Leicester ..	220,000	156,000	167	2,240	3.83	1,719
Salford ...	220,000	122,000	2,865	1,000	2.62	2,051
Aberdeen ..	165,000	107,000	1,871	1,321	3.65	1,581
Cardiff	164,000	62,000	607	1,079	3.27	1,736
Nottingham	239,000	206,000	1,913	2,704	2.08	7,937
Private plants:						
Newcastle .	217,000	288,000	6,650	4,160	{ 1.66 { 2.50	11,684

(The figures in columns 2, 3, 4, and 5 are taken from the *Electrician's* sheet for 1904—5. The figures in columns 6 and 7 are taken from Garcke's *Manual*, Vol. IX (1905). The figures as to Nottingham include sale of current to the city tramways.

From the foregoing the following comparisons appear:

Average population served by public plants	215,875
Population served by the private plants	217,000
Average number of customers of public plants	1,403
Number of customers of the private plants	4,160
Average number of lights supplied by public plants	111,375
Number of lights supplied by the private plants	288,000
Average capacity in h.p. of motors supplied by public plants	1,106
Capacity in h.p. of motors supplied by the private plants	6,650
Average number of k.w.h. sold by public plants	2,347,625
Number of k.w.h. sold by private plants	11,684,000
Average price per k.w.h. paid by customers of public plants	3.21 cents
Average price per k.w.h. paid by customers of private plants	2.08 cents

Thus it appears that in Newcastle, with a population almost exactly the same as the average population of the other eight cities, the two private companies have nearly three times as many customers as the average number of customers of the public plants; more than two and one-half times as many lights; generate more than six times as much power; and sell nearly five times as much current for all uses: while their prices average more than 33 1/3 per cent. lower.

These results have been accomplished in about four years by companies, one at least of which has operated under legal conditions more nearly like those governing municipal undertak-

ings than any others in England, while the municipalities with which the comparisons are made have had a free hand ever since 1882 to accomplish the inferior results shown by their operation.

4. FINANCIAL RESULTS UNSATISFACTORY

British municipal plants of the kind under discussion, as a whole, show an average loss. Lord Avebury, formerly Sir John Lubbock, the second chairman of the London County Council, in a recent communication to the *London Standard* has stated that for the year ending March 31, 1903, sixty towns and cities in Great Britain showed a loss in operating their electrical undertakings equivalent to nearly half a million dollars, notwithstanding the fact that "the accounts do not show the full loss."

Official returns for the electric-lighting undertakings of the kingdom to December 31, 1904, show the following results of operation:

	Municipal	Private
Number of returns	182	66
Undertakings showing profits	105	61
Undertakings showing losses	77	5
Total amount of profits	£217,000	£596,667
Total amount of losses	83,000	5,000
Balance of profits	£134,000 $770,000	£591,667 $2,958,335
Percentage of plants showing profit	58	92
Percentage of plants showing losses	42	8
Average profit per plant	$4,230	$45,126

And the showings made by municipal plants, as poor as they are, have been made possible only by neglect of the items of depreciation and reserve. Says Lord Avebury:

> In comparatively few places does any sufficient sum appear to have been placed to depreciation or reserve during the year under review. At Glasgow the loss was transferred to a suspense account, and in several other cases the loss was either charged to the general district or borough fund, or in part paid by this means and the balance carried forward to next year's account.

Based upon Sir Henry Fowler's "Returns" to the House of Commons, it appears that, in recent years, the annual allowances for depreciation, in the cases of 193 water-works, 97 gas-works, 102 electric plants, and 29 tramways owned and operated

by municipalities in England and Wales, have averaged *less than two-tenths of* 1 *per cent.* on the amount of capital originally invested, and barely over two-tenths of 1 per cent. on the balance of capital indebtedness remaining after repayments of capital out of earnings.

5. MONOPOLY OF MUNICIPAL COURT

It may be as well in this connection as in any other to say something about the Association of Municipal Corporations and its influence, particularly upon legislation.

According to a recent statement by its president, it embraces in its membership no less than 294 of the municipal corporations of the country, which is within about thirty of the whole number. Only one municipality of more than 30,000 is outside its membership, the others all being under 16,000. Its meetings are largely attended by the mayors, town clerks, and other principal officials, as well as by the members of the town and borough councils. Matters of common interest are discussed, and the association is committed for or against the various matters touching municipal interests proposed or pending in Parliament. It employs counsel, and otherwise takes an active part in shaping or opposing legislation. As practically all matters of importance, including all applications for rights to perform quasi-public services, must come before Parliament, the importance of the intervention of this association can in some degree be appreciated. Its power is tremendous—some say practically invincible.

6. OFFICE-HOLDING VOTERS

The creation of a large and ever-increasing class of office-holding voters is another very serious result of municipal ownership in Great Britain. The objections to it are obvious to Americans and are well recognized in England.

It was one of the principal features of the meeting of the 20th of July, 1905, already referred to, and the *London Times,* in its editorial upon that meeting, not only emphasized this danger, but pointed out the fact that there is a yearly increase in the number of non-office-holding persons who may be depended upon to vote solidly for municipal extravagance in expenditure, being what the *Times* calls "expectant beneficiaries of such extravagance."

Fully to realize the importance of this consideration, one has but to reflect upon what the conditions would be in Boston, New York, Philadelphia, or any other large American city, if all the street-car operatives and electric gas-lighting, and telephone employees were added to the already sufficiently large municipal pay-rolls. In the city of New York, for example, there are about 50,000 such employees, exclusive of those in the telephone service. There are already on the city pay-rolls fully 50,000 municipal employees. If the former should be added to the latter, the combined force would constitute an army of fully 100,000 people, or one-sixth of the total voting population. If united and aided by their friends and relatives, such a combination would be invincible.

Under such conditions, the existing local political "machines" would become so strong as to be impregnable, and the private citizen would finally realize all the burdens and inconveniences which his practical disfranchisement would involve. He is now urged to take some part in local politics; it would then be of no use to do so. The cohesive power of such a combination of office-holding voters would control every local matter, particularly those involving expenditures of money in which they might have a personal interest, although they might not be, and in a majority of instances would not be, taxpayers themselves.

7. INCREASE IN MUNICIPAL DEBTS AND TAXES

The last, although by no means the least important, circumstance which has attended, if not resulted from, the enlargement of municipal functions in Great Britain, is a tremendous increase in municipal indebtedness and taxes.

Take, for example, the recent statement of Lord Stalbridge, chairman of the London & Northwestern Railway, that in the twelve years between 1891 and 1903 the local rates and taxes, exclusive of income tax or government duties, paid by British railways increased from the equivalent of about eleven and a quarter million dollars to nearly twenty-two and a half million dollars, or 100 per cent. and continues to increase at the rate of a million and a quarter yearly.

One of the leading citizens and most extensive manufacturers of Glasgow, and at the same time one of the fairest men in his attitude toward municipal ownership, Mr. Arthur Kay, in a paper read before the Glasgow Royal Philosophical Society,

March 25, 1903, reviewing the local statistics for the preceding eleven years said:

> The figures given show that the population of Glasgow has in the past eleven years increased 16 per cent., the valuation 45 per cent., the rates [i. e., local taxes] 112 per cent., and the debt 119 per cent. The ratio of assets to liabilities has gone up from 119.06 to 128.89.

That is to say: the valuations of property for taxation had increased nearly three times as much as the population; which, of course, involves the possibility that the increase in the actual wealth of the community had enormously outstripped the increase of the population in eleven years, but more probably leads to the conclusion that, in order to meet the demands of a rapidly increasing municipal expenditure, the valuations of property for purposes of taxation had been abnormally advanced; also that the individual ratepayer had seen his annual taxes more than doubled in the period, and the municipal indebtedness for which, as a citizen, he is in part responsible, increased in a still larger ratio, while the excess of the municipal assets over liabilities had increased only by a paltry 10 per cent.

III. Causes of Unfavorable Results

Assuming the foregoing to be a fair statement, in outline, of the present conditions of municipal electric lighting, railroading, and telephoning in Great Britain, and that, upon the whole, it would not be desirable, if practicable, to reproduce them in the United States, and that it is wise, if possible, to avoid the causes by which they have been produced it is necessary to determine those causes with as much accuracy as may be.

The principal and controlling cause of the results which have been obtained in Great Britain is found in English legislation and official regulation respecting the electric industry.

Municipal ownership of gas-works.—Another cause of the unsatisfactory results above indicated is the municipal ownership of existing gas-works. This fact has led the municipalities owning them, with practical uniformity, to object to the exploitation of a new illuminant by private capital, and to procure rights for themselves, which have been in fact, if not in law, exclusive. Under these rights they have either not established electric-lighting plants at all, or have established them after long periods of delay, thus depriving the communities which they have represented of the new and improved illumi-

nant, either permanently or for long periods of time after the progressive communities of the United States had been supplied by private companies.

Municipal inertia.—Another cause is lack of that individual initiative and business energy and push, without which no industry will develop.

In municipal management it often happens that the right thing at the right moment cannot be done for lack of power. Consent must be gotten from the local authorities; and before it comes, the opportunity is gone. At one time a popular revulsion against extravagance results in failure to make proper necessary expenditures, and at another a determination to have good service leads to waste or recklessness. Public business is everybody's business. Everybody's business is nobody's business and things a little out of the routine, the little unexpected all-important things which constantly appear, are found undone under municipal management when it is too late to do them. Private business has the enterprise and energy which municipal business lacks.

None of these causes have been operative in the United States, and, because of their absence, the industry has been vastly better developed, and the extent of territory and the number of persons served have been much larger.

IV. Duplication of British Results, so Far as Favorable, Impossible in America

But if it should be assumed that the results of municipal undertakings in Great Britain are, upon the whole, favorable to the consumer and the public at large, and that it would be desirable, if practicable, to duplicate them in the United States, this could not be done, owing to the existence of radically different conditions in the two countries.

Differences in political conditions.—If, and so far as, the municipal ownership and operation of public-service utilities in Great Britain have been successful, it has been because of the character of the local civil service of that country. Politics, in the American sense, is unknown in the administration of local enterprises. Business principles are applied to the administration of public as well as private works. The rigid limitation of the voting franchise, with other causes, has operated to put into city and town councils and other local legislative bodies men

of a superior type, who regard public service as an honor, and whose services are retained by the public practically as long as they are willing to serve. In the choice of administrative officials they exercise the same care as the directors of private corporations do, and the tenure of such officials is as long and as certain as that of those in similar capacities in private employment.

Laws governing the voting franchise.—The qualified voters for municipal officials are called "burgesses." They are persons of full age, who, for at least one year, have occupied alone, or with others, a house, shop, or other building in the borough, and have resided in the borough or within seven miles thereof for a full twelve months.

The most important limitation of this general qualification of the burgess is that he must have paid, on or before July 20, all rates, (i. e., local taxes) which were payable by him up to the preceding January 5. In Scotland this provision operates very much to reduce the actual voting lists below the number who are theoretically entitled to enrollment. It practically excludes from the franchise the entire body of irresponsible and vicious electors. Albert Shaw, in his *Municipal Government in England,* 1895, estimates that these provisions exclude at least one-third of the theoretical voters at all parliamentary and municipal elections in Scotland.

The "lodger," so called—that is, an unmarried man, paying at least $50 a year for lodgings—is theoretically entitled to the franchise; but inasmuch as he must procure his own enrollment from year to year (whereas the ordinary ratepayer is enrolled without any action on his part, because he is a ratepayer), he practically loses his right to vote. Thus it is apparent that all "floaters" and other irresponsible unattached single men are excluded from the franchise. Out of 20,000 Jews huddled together in the tenements of the Cheetham districts of Manchester only 900 are on the municipal voting registers—undoubtedly chiefly because they do not meet the requirement as to the rentable value of the tenements occupied by them. But this law somtimes excludes intelligent citizens from the franchise, simply because they are "lodgers," as, for example, in the case of the ten reporters on the *Manchester Evening Chronicle,* not one of whom was a voter at local elections. In England the lodger is excluded by law from the municipal fran-

chise, although he may vote for members of Parliament,—except in London, where a lodger in occupation and residence in one definite house within the borough for the preceding twelve months is allowed to vote.

The exploitation of the slums and of the non-rent-paying population for municipal political purposes is therefore practically impossible in Great Britain.

In addition to the provisions for the practical limitation of the electoral franchise to the responsible and desirable ratepayers, the purity and efficiency of municipal government in Great Britain has also been protected and promoted by the great stringency of the so-called Corrupt Practices Acts, applicable throughout the kingdom.

Evidences of deterioration in local governments.—But, excellent as is their general character, I think it is beginning to be understood and generally admitted that the local governing boards of the larger British towns and cities are becoming less, rather than more, efficient. This result naturally accompanies the multiplication of the duties imposed upon those bodies. They are becoming overburdened, and in some cases fairly swamped, with the extent and variety of the public concerns which engage their attention. In Glasgow, for example, it is said that a conscientious member of the council must devote about two days a week to the discharge of his public duties. In Manchester the chairman of the gas committee for ten years has spent at least six hours a day in the discharge of the duties of that position. While willing to give much of their time gratis to the public service, business men are beginning to find that the draft upon it is more than they can meet without absolute disregard of their private affairs. The wonder is, that, notwithstanding this fact, these bodies have thus far adhered as closely as they have to the high standards of the past.

V. Summary

First. The operation by British municipalities of public utilities of the kind under consideration has been successful, if at all, in the single particular of furnishing the service or supply at a fair price to a comparatively few persons. Aside from gas supply, it has not resulted in any considerable profit to the municipalities, the losses in electric lighting traction, and telephone enterprises being frequent, while the profits when

realized are generally not more than 2 or 3 per cent. on the investment—the net result to date being an average loss.

Second. It is by no means conceded, but, on the other hand, is strenuously denied, even in England, that municipal trading has, upon the whole, been successful, and British public sentiment is by no means settled upon that subject.

Third. The municipal supply of electricity for light, traction, and telephone service has been attended by certain serious results, which more than offset the success, if any, which has been obtained in the single respect above referred to, viz:

(1) A most serious check upon the general development of the electrical industry in Great Britain, and, in consequence, upon the establishment of the manufacturing plants and facilities which would otherwise have grown up.

(2) An extremely restricted supply in the cases where the supply has been undertaken, resulting in the accommodation of the few, to wit, consumers, at the expense of the many, to wit, rate-paying non-consumers.

(3) The abnormal enlargement of the functions of local government, resulting in the discouragement of private enterprise, and the creation of a large and increasing body of office-holding voters.

(4) A most serious enlargement of municipal indebtedness, and the creation of a class of voters who can be relied upon to support extravagant expenditures.

Fourth. The unfavorable results realized in the development of the electric industry are primarily traceable to the character of the legislation and official regulations governing the matter, all of which, professedly and in reality, are framed for the encouragement of municipal, and the discouragement of private, enterprise; and also to the inertia and lack of business enterprise which are inseparable from municipal operation.

These laws and regulations, not having worked well in Great Britain, should not be imitated or approximated in America.

Fifth. If a different view from that above expressed is taken of the character of the results achieved, and it is deemed advisable, if practicable, to duplicate the financial and technical results of the British municipal undertakings in America, it will be impossible to do so, owing to the totally different political conditions obtaining in the municipalities of the two countries, respectively. Not only is the municipal civil service in Great

Britain totally different from that in America, and dependent for its character and tenure upon a wholly different system of laws and administration, but the public sentiment and education of the people of the two countries upon the subject is so opposed that the conditions in either country could not be reproduced, by legislation, or otherwise, in the other.

Sixth. In view of all the foregoing considerations, it is manifest that the continued encouragement of the exploitation of private business by private capital, rather than the entrusting of business or quasi-business enterprises to municipal officials, is the only sound course to be pursued in the United States.

PUBLIC OWNERSHIP AND POPULAR GOVERNMENT[1]

The growing sentiment in favor of public ownership and operation of industrial enterprises appears to be due mainly to two causes: first, dissatisfaction with the manner in which such enterprises, or those of them conducted under public franchises or privileges, are operated under private ownership; second, resentment against large aggregations of private capital, whether its employment in such enterprises is advantageous to the public or not.

The first cause appears to predominate in American municipalities. The second is no doubt the moving sentiment of the majority of those in the United States who would have the federal government own and operate the railways and telegraphs, although other reasons are commonly assigned.

The term "industrial enterprises" is used in the broadest sense, with a knowledge of the distinction observed in the securities market between manufacturing and mercantile business commonly termed industrial, and the transportation, lighting, and other business usually carried on under public franchises. Yet as a fact all are industries—departments of business employing capital and labor. The separation of those departments of enterprise, or business, which are commonly conducted under public franchises or subject to public regulation in certain respects, from other departments as properly and naturally those

[1] By William Horace Brown. American Journal of Sociology. 12:328-40. November, 1906.

which should be owned and operated by government, either municipal or federal, is purely arbitrary. When it is asserted by advocates of public ownership and operation that there is such a distinction which they desire government to observe, they at once admit the doubtfulness of their proposition, and the necessity of placing close bounds upon their innovation. In European countries no such distinction is insisted on. Municipalities there own abattoirs and distilleries, and engage in many other enterprises. Therefore, if it is a proper function of government, municipal, state, or federal, to engage in the railroad or gas-making business, it is likewise proper for it to go into many other kinds of business.

The municipality exercises control over and grants special privileges in greater or less degree to the omnibus carrying business, house-wrecking, the building business, the advertising-sign business, not to quote too long a list. It does not seem to be any stretch of logic to analogize that, if a municipality may properly engage in the telephone business, because it permits the stringing of wires in alleys and under the streets, it may as properly engage in the construction business, on the ground that in the erecting of buildings contractors are specially permitted to monopolize half the street about the premises during such operations. Besides, building is under strict municipal regulation as to materials used, sanitary appliances, etc., and is controlled by the city inspectors.

If we are to admit it to be the logical function of government to turn merchant, manufacturer, and speculator, with the money of the taxpayers, it is of first importance to find out whether we are to place any limitations upon it, and, if we are, for what reason. If we are going to fix an arbitrary rule of limitation, without sound reasons therefor, we may as well expect those who follow after us to throw it over. So it would seem to be of first importance to ascertain and bear in mind what the province of the government under free institutions really is. Under an absolutism the problem is exceedingly simple. The nearer we arrive at popular freedom, the more disputed it becomes.

It is undeniable that in the United States from the earliest times the people have been firm in the faith that government was for the purpose of conducting purely public business, and should interfere as little as possible with the occupations of the

citizens.. In early years this feeling was so strong that it threatened disruption of the government as organized under the federal constitution. People denied its authority to declare embargoes or to impose internal revenue taxes. The whole body of the people wanted the least government necessary to preserve order locally and to conduct interstate and foreign affairs, and they wanted that at the least possible cost. This was the sentiment which Mr. Jefferson coined into his epigram: "That government is best which governs least."

The theory was, of course, that the people should be permitted the widest latitude in conducting their commerce and in regulating their private actions not inconsistent with the general welfare. There should be no sumptuary laws; no state interference with religion; no laws permitting monopolies; no favoritism; no recognition of class distinctions; nothing, in fact, that would in any way deny perfect equality or interfere with the exercise of commercial and individual liberty; always, of course, recognizing the universal code of morality. In general, this has been admitted by every writer of recognized authority on governmental science as the true basis of popular representative government, both in England and in America. From Franklin and Jefferson and Madison, to Bryce and Lecky, it will be found as a recognized principle, even among those writers who hold less faith in democracy than others. It is simply a recognition that the day for anything like a paternal government for an intelligent people is past.

A real democracy is adapted only to simple forms of government; for government, being an institution of business, cannot be successfully conducted through many ramifications by the popular will. The popular understanding is not equal to coping with intricate business propositions. The more complicated the government of a municipality becomes, the greater the number of departments; and the more responsibilities involved, the less is success likely to attend management by boards of unskilled minds subject to popular influence or guided by partisan interests. The more and weightier the business undertaken, the greater the requirement for centralized authority and specialized skill; and consequently the less can be permitted of popular dictation. This is merely the principle that applies to business consolidation, where the most intricate problems are concentrated in a few executive heads.

How can we square this sentiment, this fundamental principle of a minimum of governmental interference, with the theory that the people, either individually or organized together in companies, are not to be intrusted with the conduct of commercial enterprises, and that government shall deprive the people of their business opportunities, and monopolize such enterprises under its arbitrary power? The question cannot be answered by any shifting rules of limitation—that has already been shown. Under the assumption that all commerce or enterprise carried on under a public franchise or privilege is proper business for government to engage in, the principal departments of commercial enterprise would be included. It is merely a question of degree, at the most; and it matters little as to the difference between packing-houses operating under municipal license, and under guard of municipal and government inspectors, and an electric company with a franchise. It resolves itself at once into a question of whether, if government is more competent and better entitled to conduct one-fourth of the business of the country—that is, to deprive the people of one-fourth of their worldly opportunites—it should not take over and conduct one-half, or three-fourths, or all, and leave the people with no opportunities whatever. Otherwise stated, if it is the proper function of government to take from the people and operate a part of the business enterprises within its jurisdiction, it is not the proper function of the people to say it may not also assume and monopolize other enterprises.

To be sure, municipal-ownership advocates will declare that it is not proposed to deprive the people of anything; that, on the contrary, it is proposed to take from the corporations that have robbed the public and give to the people that which rightfully belongs to them. This has a very seductive sound, but it is sophistry. The people own the businesses which it is proposed government shall take over and conduct. There are perhaps several millions of shareholders in the various corporations of the United States. In addition, the saving banks hold over three billion dollars of deposits, the life-insurance companies have nearly as much, a very large percentage of all being invested in corporate securities, really held with the people's money. It is intended to pay them for their properties, of course. But has government the money to do this? No, it intends either to borrow the money on the properties or to go in debt to the

owners for them. Now we have arrived at this situation: The people who are actually in the business which the government, local or federal, will take over, must retire from such business. They must enter other business, become idle capitalists living on their incomes, or seek salaried positions. They cannot enter other lines of trade without displacing some who are already in them, for practically all avenues of trade are as full as reasonable profits will permit; otherwise there would be an increase of competition as things now are. The municipalization or government ownership of industries will not create new business. It will, in fact, tend to narrow the volume of exchanges, for the reason that, on the average, public operation will not be as enterprising or as ably conducted as private operation. This will be disputed, but it appeals to reason that the citizens who have created the country's industries, who are conversant throughout with their technicalities, and who now successfully manage them, are more competent to do so than any others are. The people who have shown the greatest ability in building up businesses are surely the ablest in managing them.

The government, after thus having displaced the most competent business skill of the land, greatly disturbing the equilibrium of trade in so doing, and destroying the choicest avenues of money-making investments, holds out to the people thus dispossessed the alternative of accepting its low-rate bonds for the amount of their holdings—for we are not considering now the radical scheme of confiscation. Thus all, so far, except wage-earners, have had their incomes reduced, their possibilities for advancement curtailed, with large numbers forced into idleness; while the overcrowding of other business channels and lines of endeavor have reduced profits and caused business demoralization. Government, meanwhile, has become shopkeeper, trader, speculator, carrier, exclusively with hired help, much of which is engaged because of political influence or partisan activity. It has promised higher wages, and is attempting to pay them with impaired efficiency in operation and against a condition of industrial disturbance. At the same time, its income from taxes has fallen greatly, not because the rate of taxes is less—it is, in fact, higher—but because all the property which it has taken over now pays no taxes, and the bonds with which it paid for them are, as a rule, not productive of taxes.

Something must be done to forefend disaster. An attempt is made to reduce wages, which have been in many instances raised through influences other than consideration for the best interests of the enterprises; and strikes and tumults follow. Whatever deficiencies occur in returns must be made up from the general fund. New taxes are imposed—stamp taxes, increases in the excise, a modification of the tariff—which of course always means a raise. And then a revulsion of feeling in regard to government trading.

Now, it is just as easy to deny that these results would occur under an extensive experiment in public ownership and operation as it is to outline them as probable. No government has entered upon the scheme far enough, and tried it long enough, to establish a criterion which may be used as indisputable evidence. Lacking sufficient statistics of actual results necessarily leaves the subject in a degree open to conjecture; but only as any proposition in conflict with logic and the known results of human actions are conjectural. And we have incomplete data which show the trend of municipalization experiments in the direction indicated.

It is more than inconsistent, it is paradoxical, for a people who have for generations maintained the doctrine of the widest possible freedom in all departments of human endeavor, and particularly for that portion of the people which has supported that doctrine to extremes, now to appear as the sponsor for a system of governmental interference with such freedom so radical that it is nothing short of paternalism. This strange paradox is not relieved by the excuse that the common people are being despoiled by defiant corporations which enjoy and abuse special public privileges. The corporations are a part of the people. They are creatures of the same governmental power which it is proposed shall supersede them in proprietorship, and are supposed to be subject to the control of that power.

If government has created institutions that are harmful to the country and the people, it is a governmental fault. The people created the government and maintain it. They elect, by universal suffrage, the officials who administer the affairs of the government. If these affairs are inefficiently or dishonestly administered, it reflects directly upon the intelligence and the watchfulness of the electors. Administrators as well as legislators hold their offices by short tenures. It is the business of the

people—not their privilege, but their business—to keep their government in clean and able hands. Just so far as they do this do they demonstrate their fitness for self-government. Just so far as they fail or neglect to do this do they show their unfitness. Under our system bad government must be the result of the incapacity or indifference—which is the most hopeless kind of incapacity—of the citizens.

This is so manifest as to be not debatable; yet we know government has created corporations that have imposed on the public, and that it has failed to exercise adequate control over them. States have shown unwise liberality in granting charter powers without adequate safeguards, and American municipalities are notorious, not only for their prodigality in granting franchises, but in the worse than incompetent manner in which they manage their business affairs generally. It is a frequent comment that our governmental system has shown its weakness more in the government of large cities than in any other respect. Demagoguism, graft, and political trickery find in them their most profitable fields, and it is in them that reform works the slowest.

Even where rank dishonesty does not appear in the conduct of municipal business, there has been much to condemn. We can see on every hand in practically all of our cities things that have been done wrong or entirely neglected. Cities have grown with great strides, problems have developed rapidly, and our system of rotation in office, to forestall building up an office-holding class, has had the effect of keeping, too much of the time, inexperienced men in the management of them. In some instances, also, there have been inadequate systems imposed by state constitutions or legislatures. But in all cases the shortcomings are primarily those of the people. Franchises have been corruptly bartered by councils and boards; yet we know that members who have been notorious in such treachery to the public's interests have been returned again and again to their offices by the votes of the people. It is hardly an exaggeration to say that the officials who have been most recreant to their trust have, as a rule, been able, through their machinations, to hold their places for the longest periods. Whenever municipal ownership abroad is cited, it should be remembered that in European cities, as a rule, the executive officers are not elected by the people, and are free from political pressure. This is true even of the chief cities of England and France.

Many other facts of common knowledge might be quoted to expose the errors of government and its defects in business management. The real difficulties have been great. Legislative bodies and executives have lacked foresight in providing for adequate control over public corporations. Entanglements and litigation have resulted in many instances; and if we freely allow that corporate greed has overstepped itself and brought on a storm of popular resentment, it must be remembered that in few instances has public management—that is, the officials of all classes—been competent successfully to cope with it. And, in the final summing-up, it will be found that two causes are at the bottom of the whole trouble: our political system, which insists on short tenures of office and selects public servants for other reasons than their superior ability; and the carelessness or lack of judgment of the people themselves.

There is to be taken account of the arguments that the task of government in properly controlling public utility, or other commercial enterprises operating under public privileges, is greater than it would be in conducting those enterprises itself; and that the removal of such businesses from private hands to government proprietorship would at the same time remove the principal source of political corruption.

The former contention is a necessary one for the advocates of government trading, for at the outset they are met with the indisputable facts given above concerning the weakness, even to failure, in the conduct of purely official business. The very first step in the logic of the case is that, if our officials, as they average, have failed in the conduct of affairs purely public in their nature, they would fail yet worse in conducting the largest business enterprises of the country added thereto in one vast complication. If they have been found wanting in some things, there is not the slightest warrant founded on human experience for the belief that they would prove more efficient in many and weightier things. Such an assumption is not only contrary to experience, but is repugnant to common-sense. It does not matter that municipalities are operating some public-service plants with a degree of success. They might conduct them with a still greater degree of success without affecting the argument.

As to the second claim, while it might prove true in some instances, there are records that show it cannot be depended on. Human nature is not changed by merely shifting the temptation.

Years ago Philadelphia owned and operated her gas-works. On the theory of municipalization advocates, that should have prevented tampering with the officials, so far as the gas business was concerned, and the business should have been a blessing to the people. But the results were contrary. The works were allowed to run down, the quality of the product was low, the price for it high. All this was laid to the machinations of capitalists who were alleged to have bribed and conspired with the officials, where the capitalists themselves were not the officials. Finally a change was made. The works and business were turned over to a private corporation by lease on terms alleged by the corporation baiters to be rank robbery of the people. For years the transaction was pointed to as a horrible example of corporation outrage and spoliation of the people—not, of course, through the fault of the people, but because of corporate greed.

Finally it was discovered that the bargain had proved an excellent one; that the quality of gas had been improved, the price cheapened, the works rebuilt and extended, while the city received nearly half a million a year in cash payments. What is the moral? Why, the municipality, not having managed its own affairs as ably and honestly as the much-maligned gas company had conducted the gas business, sought to raise a vast sum of needed cash in lump payment for a further extension of its valuable privileges, thus discounting its rentals for many years; and that is how one government demonstrated its fitness for higher things. The country is studded with towns that have had unsatisfactory experience with ownership and operation of water and electric-light plants, and have turned them over, or are seeking to turn them over, to private companies; and in almost every instance there has been a faction that complained of the alleged conspiracy of certain of their officials with capitalists.

While reliable statistics are yet lacking to demonstrate the results of extensive government ownership and operation which I have predicted, there are enough, not only to destroy faith in the roseate claims of the public-ownership apostles, but to point a distinct warning of the danger. The statistics are in too many instances discovered to be deceptive in the favorable results they show. In several particulars is this true. They are given to omitting proper charges for depreciation. This especially in

respect to electric-lighting plants, where depreciation and obsolescence have been very costly. They frequently fail to show the true cost of operation by neglecting to state the services given the works by other departments of the city government, and the sums that are lost in taxes that would be paid under private ownership; also the quality of service rendered. And, besides, the scheme has been tested on too limited a scale to permit of jumping at enthusiastic conclusions. There have been, if nothing else, too large a percentage of known failures, so far as the test has gone.

But against this warning we are handed a flowery statement of results in Europe, and especially in England and Scotland. This is carrying the argument away from our conditions, and even if the known facts over there were more favorable than they are, it would not warrant our attempting to follow their example. As to results in Great Britain, however, the game has not been played through, and the final score will not be shown for years to come. It may be conceded that, if any country possesses a system and character of government capable of engaging successfully in government trading, Britain is that country. Yet we have reports of antiquated instruments in municipal telephone systems, of lack of enterprise in perfecting and extending the service which would be borne with sour grace in American cities. Not only has the service been poor, but in some instances the operation has been at a loss. The same may be said of municipal electric lighting in Great Britain. The service is complained of, and in a number of cities, including Glasgow, Edinburgh, Bath, and Bristol, has been operated at a loss. As for the municipal tramways in England and Scotland, American travelers are practically a unit in declaring that most of the systems, and the methods of operating them, would not be tolerated in America, even those often quoted as examples of municipalization success, such as Glasgow and Edinburgh.

Of most vital importance is the problem of municipal indebtedness which the experiment has created. More than two thousand million of bonds have been issued in England to extend municipal trading, and the investments have in some instances already affected municipal credit. Some lines about London are already a charge to taxpayers, and the leading newspapers are sounding the alarm as to what may be the ultimate result. There

has also been observed an effect on the industrial system of the country, and the subject of the displacement of private enterprise and responsibility by government is awakening much serious thought.

The day has not arrived when we may point to England's example as one which America may safely follow.

Patient, disinterested examination of the subject in its various phases does not discover any warrant in experience, political conditions, or the purpose of government, as vewed by the clearest intelligence of recent times, for the assumption that public trading would prove the public blessing so confidently claimed for it by its advocates. This will apply either in the case of municipal or federal government engaging extensively in business. It is characteristic of propagandists to indulge in positive assertions—not merely to believe and prophesy, but to declare future results. That it is the true purpose of government to conduct the chief commercial enterprises of this country, or any considerable portion of them, no man—no American, at least—has any right to declare. That the results of municipal trading in America, so far as it has been tried, have been entirely successful, as has been frequently asserted, statistics so far obtainable do not prove. It cannot truthfully be stated, without qualification, that experience so far in municipal ownership and operation has, as a whole, been of greater benefit to the people than private ownership and operation in the same instances would have been.

A hopeful theory is that by imposing ownership and operation of industrial enterprises on city governments the quality of citizenship will be raised, because citizens will then take greater interest in city affairs. It would not be difficult to prove by history that, the more paternalistic governments have become, the less responsibility has been shown by their citizens or subjects. But it is not necessary to enter such an argument. For the accepted doctrine of free government is, that it should protect the people and guard their interests by reasonable regulation and control, and not that it should conduct the business of the people.

The plea that government cannot properly control corporate operations, or that it will not do so, is a pitiful one. It must be conceded that in many things government has not done so. But that being the natural function of government, there can be

no question that it should first demonstrate its efficiency in that duty before engaging in commercial experiments, even if the latter should be admitted a proper course for it to take in any event. Let the protests of the people against corporate derelictions be directed to enforcing adequate control. Let the errors that have been made in the past through wasted franchises, excessive privileges, inadequate laws and charters, be remedied as fast as the nature of the various cases will permit. Clean the administration offices. Keep able men in office longer, the delinquents not so long. Perfect the merit system, not in a way that it will help shirking inefficients to retain their places, but so that it will more surely encourage merit. Deal with corporate interests with a view to the greatest public advantage, not merely with the view of carrying out arbitrary ideas of short-term franchises or municipal purchase.

Government control and regulation are natural functions. If they be properly exercised, they must prove more beneficial to the people than government trading. They will insure improved service of public utilities, which municipalization does not. They will increase the public revenues by compensation, without the danger of increased public burdens. Strict government control is more likely to decrease political corruption than is government trading, as the management would not be swayed by political considerations; this with special reference to traction properties employing large numbers of men.

What may be effected through wise control and regulation is exemplified in the street and elevated railway service at Boston, concise explanation of which has recently been given to the reading public by Mr. Hayes Robbins. It is not too much to say that Massachusetts and Boston have, in fact, fairly solved the problem of public control and regulation. In quality of service; in mileage of track in proportion to population; in benefits to the public treasury, and in all things that constitute satisfactory urban transportation, we have the highest testimony that this system is superior to any in Europe; while the uniform five-cent rate of fare, compared with the zone rates there, is no higher, and wages of employees average twice as high.

Now, what has been done in Massachusetts may be repeated in every state in the Union, not only with respect to tramways, but also as to lighting, telephone service, and water supply. It was observed as far back as Aristotle that community of prop-

erty was not a practicable scheme for populous communities. How true that observation was is attested by the fact that, while it has frequently been attempted, by almost every character of people and under almost every social condition, it has failed in every instance. The more extensive the municipalization ideas are put into experiment, the nearer we approach the community of property system, and, according to all human experience, the nearer to governmental and industrial chaos.

PUBLIC OWNERSHIP VERSUS PUBLIC CONTROL[1]

When it was first announced that the Citizens' Union of New York was entering upon a campaign to increase the range of municipal powers so as to include ownership and operation, among other things, of street railways, gas and electric-light service, it was regarded as something of a politico-economic sensation. The extraordinary feature was not the character of the proposition itself. Municipal ownership is no novelty, either as a theory in this country or as a practical accomplishment in Europe, especially in Great Britain. But that an organization of the civic prominence and influence of the Citizens' Union should select the opening months of a new Tammany administration to start the machinery at the state capitol for a constitutional amendment permitting these new city functions, was unique in American political history, to say the least.

Had the last municipal election in New York continued the reform administration in office, a suggestion for adding an immense new set of complex responsibilities and powers to the city government's activities certainly would have seemed less eccentric than coming, as it did, close upon the heels of the most striking demonstration ever afforded of the insecurity of clean, able, and nonpartisan government in the great "social experiment" city of the New World.

But these are points of political expediency rather than of principles at stake. The larger importance of any such movement does not lie in the sensational interest of an unpropitious launching, but in the fact that it raises again (and each time

[1] By Hayes Robbins. American Journal of Sociology. 10: 787-813. May, 1905.

more seriously, whatever the outcome of the particular agitation) the issue of the wisdom and practical feasibility of taking the government into these exacting and complicated fields of industrial responsibility and management. This is, indeed, a large issue; and if a fresh discussion of it leads to nothing more concrete than the remedying of certain abuses in existing systems, and establishing more equitable and satisfactory relations between the community and public-service corporations, it will have been well worth while.

The demand for public ownership and operation of street railways, lighting facilities, etc., is often based upon the broad contention that the furnishing of "common necessities" ought logically to be in the hands of all the people. The argument is obviously careless, in that it would equally justify state production of wheat, sugar, coal, oil, meats, cotton, and wool—whatever, in fact, has come to be regarded as a "necessity" of life. The real distinction comes in when the article in question is not only a public necessity, but is supplied under practically monopolistic conditions. There is a separate grouping of industries of this class, which is recognized in the practical policies of virtually all civilized countries. From time immemorial governments have elected to take over the control and operation of so-called "natural monopolies;" whether it was the development of valuable natural products, especially rare mineral deposits, or, in more recent times, the furnishing of water supply, drainage systems, street-lighting, and even in some cases of public transportation and communication facilities. The instinctive appreciation that the peculiar character of such industries calls for and justifies something more than a *laissez-faire* policy is what underlay the very general support of the President's intervention in the coal strike. The act was unofficial, to be sure, but morally it had the effect of an assertion of the sovereign popular right to take a hand in the conduct of a virtually monopolistic industry supplying a necessity of life.

The principle has steadily become clearer that, where competition is impossible or ineffective, some outside agency is not only admissible, but necessary, to supply or compel the progressive improvement and the checks against extortion which natural conditions do not in such case afford; and since this interference is required in the public interest, what more natural than that the government, as the organized expression of the people's will, should be the intervening agent?

Much elaborate argument has been wasted in the vain effort to show that competition is really feasible under all conditions. But public sentiment has become impatient of all such obviously specious reasoning in defiance of known facts. Competition between transportation lines, or gas and electric-light companies, or telephone systems, usually ends either in a price agreement, or a division of territory, or an outright consolidation of the rival corporations. Massachusetts has frankly recognized the humbug of competition in certain of these fields, and has even gone to the extent, as a recent decision of its Board of Railroad Commissioners, in a case at Springfield, witnesses, of declaring virtually that the monopoly is advantageous and should be protected; but such an expression from the source quoted must always be taken in connection with the all-important proviso that the monopoly operates under a very strict and comprehensive system of public control, and this is precisely what Massachusetts law provides.

Here is where the real issue lies today. There is less and less effort to galvanize the corpse of competition in the public-service facilities of our cities, either in practice or in theory. Equally, there is less and less disposition to deny the public right to supply in some way the safeguards which competition would naturally afford if it were actually there. The vital question is on the *how*. And here begins the cleavage between the public-ownership proposition and public control.

It will be of interest to inquire into some of the experience of recent years, under both systems, in this country and abroad. So far as strictly municipal undertakings are concerned, Great Britain furnishes practically all the advanced experiments of large importance, and unfortunately the differences of opinion as to practical results are so pronounced, and the testimony so conflicting, that positive conclusions are in many cases difficult. Not only this, but in forming judgments very much depends upon whether the results under municipal operation at a given time are compared with previous private-management experience in the same community, or with present American experience under private management.

Take, for example, the famous case of Glasgow. The tracks of the street-railway system were the property of the city from the beginning, but were leased in 1871 to the Glasgow Tramway & Omnibus Co., for twenty-three years. On November 12,

1891, the Town Council voted not to renew the lease, and entered into negotiations with the company for the purchase of its equipment. These negotiations fell through, and the municipality thereupon purchased an entire new outfit for a horse-car line—cars and horses, barns, ground, buildings, and machinery. Why was not an electric system installed, as it certainly would have been by any American private corporation taking possession of an urban transportation system so recently as 1894?

Mr. J. Shaw Maxwell, in a review of municipal-ownership experiments, in the *Co-operative Wholesale Societies' Annual* for 1902, says it was because there was not time enough in the two years after the negotiations with the private company collapsed to the date when the city had to begin operations, to purchase and install an electric plant. A different explanation is indicated in the very exhaustive and favorable account of the Glasgow tramways, to which the *Light Railway and Tramway Journal* (London) devoted almost its entire space in the issue of July 3, 1903. It appears that a special committee was appointed as early as July, 1891, to investigate methods of operation for the tramways and a month later reported in favor of "mechanical traction;" but they could not agree on whether it should be electric, cable, compressed-air, or gas-motor.

> The subcommittee were busy considering the question until after the following May, when they decided that it would be impracticable to start the service with mechanical traction, and that the safest course would be to start with horses and wait further developments in regard to the various forms of traction.

In October, 1902,

> offers were received for erecting and completing an electric installation, with all plants, appliances, rolling-stock, etc., necessary for working about eight miles of the tramways in the northern part of the city, including the Springburn route, on the overhead system, but the Committee did not then see their way to recommend the acceptance of any of the offers.

Not until five years later was even a short experimental line authorized, and the principal reason seems to have been that "there was as yet no general concensus of opinion as to which was the best system of mechanical traction." The first test-line was opened in 1898, and in the following year a complete change to the electric system was voted. The last horse-car was withdrawn from service in 1901.

There is a conflict of testimony also with regard to the financial results of the Glasgow undertaking. It appears that in the twenty-three years of the lease to the private company nearly

$1,700,000 had been expended on capital construction account, of which upward of $980,000 had been paid off by the tramway company, which also had expended some $617,000 on the renewal of permanent way, and contributed some $309,000 in clear cash profit to the city. Statements of percentages of profit made by the municipality since 1894 make a considerably better showing when the capital basis upon which they are computed includes (in addition, of course, to later expenditures) only the net debt upon the system at the time of the transfer, than when it includes, as it should, the total investment up to that time, of which almost two-thirds had been contributed free and clear by the operating company.

Another easy way of getting an erroneous impression of financial results is to compare the *average* annual payments to the "Common Good," or net profit fund, during the whole twenty-three years of the lease with the *annual* payments into that fund since 1894. By this method it appears that only about $13,500 per year went to the city's profit account prior to municipal management, while in the first year after the change, 1894-95, the amount so paid was $40,193; in the four succeeding years, $43,794 each; in the next three, $60,825; in 1902-3, $121,650; and Mr. John Young, the general manager of the system, informs the writer that "it has been decided that this sum shall be paid over to the Common Good annually in the future."

But the $13,500 average for the twenty-three years before 1894 of course includes all the meager early years, from the time when the total capital investment of the system was less than $17,000. If, instead of stating the payments to the "Common Good" as an average for the whole period, the figures are given year by year, as is done for the period since the lease, it appears that the amounts increased steadily prior to 1894 as well as since, and in the last year under the old system amounted to over $27,000; in the last thirteen months, over $32,000. Further, it should not be overlooked that if Glasgow had been obliged, as any private corporation purchasing the plant would have been, to pay annual interest, say at 2½ per cent., on the $980,000 of capital investment which had been paid up by the private company, the amount available for Common Good would have been less by about $24,500 each year than it actually has been since the city began operations. In other words, instead of $43,794 from 1895 to 1899, it would have been about $19,300

in each of those years; instead of $121,650 today, it would be just over $97,000.

On the other hand, on the basis of what the old company actually was accomplishing just prior to 1894, with the same unpaid capital debt to carry as that taken over by the city, the municipal management has steadily increased the net return to the "Common Good," and that with some reduction of fares, installation of a modern system, and altogether improved service.

And it is further to be noted that the movement toward municipalization of British tramways is steadily forging ahead. Huddersfield has been operating its own system since 1882; Plymouth and Blackpool, since 1893; Leeds, since 1894; Sheffield, since 1896; Liverpool, since 1897; while Manchester has only recently undertaken the same experiment, the largest of the kind in England, covering nearly 150 miles of trackage. In 1901, 56 propositions for municipalizing tramways were authorized, the estimated cost ranging from about $23,000 to $14,600,000. According to the *Board of Trade Returns* specially obtained on this subject in 1900, 70 out of a total of 177 tramway systems were then under public ownership and management, and these 70 represented a total expenditure on capital account of $49,650,737, as against $56,116,580 for the 107 private corporations.

The circumstance above all others which has made fairly satisfactory results possible, *as compared with the previous systems,* is the relatively high character of British municipal administration. Through long traditions of decency and much clarifying experience, these cities have developed the habit of picking men of honorable repute, business experience, and capacity for public service; and but for this fact it is altogether probable that the experiments would have proved disastrous failures. To cite a few cases by way of illustrating the average composition of the governing bodies of English municipalities: in 1901 the City Council of Birmingham contained forty manufacturers and tradesmen associated with the metal and cutlery trades; in Bromley nearly half the members were manufacturers and tradesmen, connected chiefly with the cotton industry; in Hull the shipping interests were strongly represented; in Huddersfield woolen manufacturers were prominent; in Sheffield the staple industry was represented in all its phases, from

corporation directors to steel-workers and molders; in Glasgow the municipal corporation consisted of twenty-one merchants and shopkeepers, twenty-six manufacturers and tradesmen, sixteen professional men, four following no calling, while the great trading interests of the city were well represented.

In spite of all the favorable features, public opinion in Great Britain, while strongly tending toward municipal ownership in many quarters, is by no means a unit on the practical results achieved down to date. Mr. Maxwell himself, although a believer in municipalization, quotes a number of critical judgments; for example, that of Mr. Benjamin Taylor, in the electric railway number of *Cassier's Magazine,* that "generally speaking, the most perfect tramway system is procurable when the municipality owns the track and leases the lines to a company under municipal regulations." Mr. Taylor reviewed the experience of Glasgow, Huddersfield, Blackpool, Leeds, Sheffield, and Plymouth, and expressed the conviction that

> In no single instance has it [municipal operation] been perfectly successful. Glasgow furnishes the nearest approach to success, but in Glasgow, with a small track for an enormous dependent population, it would take very bad management indeed to produce financial failure. . . . Any well-managed company, in possession of the advantages which any of these corporations [municipalities] whose work has been reviewed, possesses, would have, long ere this, produced much better results both for itself and for the public.

Whatever may be the conclusion, however, as to public versus private tramways in Great Britain, when we compare the results under the very best of the municipalized systems with those realized in many of the larger American cities, the differences are pronounced. Dr. Albert Shaw, author of *Municipal Government in Great Britain,* who has sometimes been quoted as an advocate of municipal ownership, declared before a committee of the New York legislature: "I have never dreamed of advocating municipal ownership in the city of New York. I have never thought of it as a remedy." And, as to foreign cities: "I never believed any experience derived from them of any applicability to our cities." Mr. Charles Francis Adams, who was a member of the special Massachusetts investigating committee appointed in 1897, and whose right to speak with considerable authority on these matters is unquestionable, declares that he has "never yet found in Europe anywhere a case of municipal or public transportation worthy an instant's consideration as compared with our own." This has the appearance

of an extreme view, to be sure; but concrete facts go a long way in support of it.

Suppose, for example, the comparison is made between the Glasgow experiment, which is decidedly the most favorable for municipal ownership that could be taken, and the Boston system, which, if it is indeed the best in the United States, has many a close second so far as practical operation is concerned, whatever may be said of the general fiscal relations with the community. Of that, more later.

Glasgow today has 139 miles of tramway, measured as single track. The population of the city is about 800,000; and in the financial statement and general account issued by the Tramways Committee the total population served, including the suburbs, is given as one million. The Boston Elevated Railway Co. operates, as a unit, some 440 miles of elevated, subway, and surface lines, and serves approximately the same aggregate population, including the suburbs. In other words, Glasgow has one mile of track for every 7,200 of population, in round numbers; Boston, one mile for every 2,270. The Glasgow system in 1902-3 carried 177,179,594 passengers; the Boston company carries about 236,000,000 paying passengers, of whom 130,000,000 use free transfers, making 366,000,000 separate trips furnished. The average daily traffic is: Glasgow, 485,000; Boston, 1,000,000. The Glasgow rolling-stock consists of about 680 cars of all kinds; the Boston company owns over 3,300. The average number of cars operated in one day in Glasgow is now about 450; in Boston, 1,300. Thus Boston operates one car for every 770 passengers carried each day; Glasgow, one car for every 1,077.

This difference is reduced, however, by the fact that practically all the Glasgow cars are "double-deckers," seating from 50 to 55 passengers. A car seating 55 provides for 25 inside and 30 on the roof. The equipment of the Boston system is varied, including 174 elevated-railway cars seating 48 passengers, with comfortable standing-room for 50 more; nearly 1,600 surface-railway box-cars of different sizes, the great majority seating 34 passengers each; and more than 1,500 open cars for summer use, seating from 40 to 60 according to the number of benches. In winter, therefore, although Boston operates about 40 per cent. more cars in proportion to traffic than Glasgow, the average seating capacity of a car on the Glasgow system

is greater than that of Boston surface cars by an even larger percentage; but this does not apply to carrying capacity. The standard surface car on the Boston system is 25 feet long, exclusive of platforms; in Glasgow, only 17 feet; which means, of course, less standing-room inside. And there can be little doubt as to which of the two evils is to be preferred, for winter travel—standing-room inside a warm car, or a seat on the roof, exposed to the cold and frequently to storms. This exposure to weather, by the way, is a permanent feature of "upper-deck" travel on the Glasgow cars, summer or winter; a second roof, or cover of any sort, has been found impracticable on account of the many bridges under which the cars must pass.

A new type of box-cars, the largest size that can be used on many of the crooked streets, and seating 36 passengers, is being installed on the Boston lines. And it is somewhat unjust to the Boston system, moreover, to estimate the average seating capacity solely on the basis of standard surface cars, even though there are 1,600 of these and only 174 of the elevated cars, which seat 48 each. An elevated car runs many more miles in a day than a surface car, and hence handles a much larger relative proportion of the traffic. While there are less than one-ninth as many elevated as either type of surface cars, the mileage made by the elevated cars is more than one-sixth of the total made by the surface. This, of course, increases the average seating capacity of the rolling-stock as a whole.

In summer the average seating capacity of the elevated and open surface cars on the Boston system is nearly, if not fully, equal to that of the Glasgow cars, and this with protection from the weather, and without the delays and inconvenience in requiring passengers to climb to the roof. Double-deck cars were tried in Boston at one time, but abandoned because it was found impossible to handle heavy traffic with sufficient expedition; and it is chiefly on this account, in fact, that the street-railway judgment of this country has been, on the whole, against the use of this type of rolling-stock.

The Glasgow system, June 1, 1903, with 130 miles (measured as single track), represented a total capital investment of $13,405,024, or $103,115 per mile. The Boston system, including stock and bonds of leased lines, is capitalized at a little less than $44,500,000; and if to this be added the cost of the city-owned subway, on which cost the company pays the in-

terest and a liberal sinking-fund contribution, the total capital investment becomes approximately $48,500,000 or $110,227 per mile. There is no presumption of overcapitalization here, as compared with Glasgow, in view of the costly elevated and subway sections which form a part of the Boston service, and of the further fact that labor cost of construction in this country includes a wage-rate practically double that of Scotland, and which is only partially offset by the superior skill and energy of our workmen.

The Boston system, with earnings of about $12,000,000 annually, pays a direct tax of seven-eighths of one per cent. on gross earnings, a state corporation tax of about $16 per $1,000 of market value of the stock, and local taxes on its real property, in the various municipalities through which its lines pass, ranging from $15 to $20 per $1,000 of assessed valuation; and, in addition, is required to remove snow and ice from, and maintain the paving on, the street surface occupied by its tracks. The interest which it pays on the cost of the subway is sufficiently in excess of the interest the city has to pay on the bonds issued for its construction, to retire the bonds and make the subway the city's property free and clear in less than forty years.

The total of these taxes and service obligations, and excess interest payment, now amounts to upward of $1,550,000 a year, or nearly 13 per cent. of the gross earnings. Glasgow, with a street-railway revenue of $3,178,471, in 1902-3, paid into the "Common Good" $121,650; to which should be added the taxes which the municipality as a whole assesses upon the tramway property, amounting in 1902-3 to $88,488. A further addition should be made of $83,982, being the average annual payment by the Tramway Committee since 1894 into the sinking-fund for reduction of the capital debt; these payments, of course, are profit to the municipality, in that they give it that much clear interest in the property as an asset. The total of these payments which go to the public good is $294,120, or slightly over 9 per cent. of the gross revenue. The Boston corporation, serving the same population as the Glasgow lines touch, pays to public-benefit account more than five times the gross amount so paid by the Glasgow system, and 39 per cent. more in proportion to earnings.

The question of fares cannot be considered apart from that of the amount of service furnished. What are the facts, then, as

between Glasgow and Boston? Glasgow has a graduated scale of fares, ranging from 1 cent for a little over half a mile to 8 cents for nine miles. The standard 5-cent fare in this country takes a passenger 5.8 miles in Glasgow. Needless to say, the confusion and complications of such a system, for the varying distances traveled, would prohibit it from meeting the demand for the utmost possible expedition on our large American city transit systems. Even more serious is the increasing rate of penalty it imposes upon the wide distribution of traffic, and hence upon the building up of workingmen's homes in the suburbs.

In Boston the uniform fare is 5 cents, and by means of the free-transfer privilege it is possible for this sum to ride from one end of the system to the other, fully 20 miles. Wage-earners and clerks employed in the business districts can live 8 to 9 miles out and ride to and from their homes for 5 cents, while the Glasgow "suburbanite," to travel equal distances, if the lines extended that far, would have to pay 7 and 8 cents, respectively. A journey of 15 or 16 miles out from central points in Boston, by connection with outlying suburban lines, may be taken for 10 cents, and 20 to 25 miles for 15 cents. The same distances under the Glasgow rates would cost 13, 14, 18, and 22 cents, respectively.

The short ride and congested-district character of the Glasgow service must be borne in mind in connection with the fact that the average amount received per passenger, based on the returns of annual earnings, is a little less than 2 cents. In Boston, counting the free transfers passengers, it is about 3¼ cents. But what is the effect of the sliding scale on Glasgow traffic? Simply, that the great bulk of the travel consists of short rides within the city limits. *Thirty-six per cent.* of the passengers pay 1-cent fares—that is, ride only half a mile; 56 per cent. pay the 2-cent fare, covering 2.33 miles; only 8 per cent. pay fares of 3 cents and upward; in other words, only 8 per cent. make journeys of more than 3.5 miles.

To be even more explicit: The most distant suburban point to which the Glasgow tramways extend is Paisley, 6.95 miles. To get there costs 6 cents, or 7 from the center of the city. The next farthest point is Clydebank, 6.39 miles; fare, 6 cents. Three other suburbs are between 4 and 5 miles, and one about 3 1/3. From Park Street station, Boston, a passenger may ride

9.53 miles to Arlington Heights for 5 cents; 9.83 miles to Charles River Bridge; 8.23 miles to Arlington Center; 8 miles to Waverley; 7.9 miles to the Melrose line; 7.36 miles to Milton; 7.3 miles to Neponset; 6.32 miles to Woodlawn; and 6.04 miles to Lake Street; and the uniform fare for any one of these journeys, or for any two of them in combination, through free transfer, is 5 cents.

The Glasgow system is not doing what it might and ought toward relieving the terrible congestion of workingmen's families huddled within the cramped distance limits. That the need of such distribution is great appears from the fact that more than 30 per cent. of the families in Glasgow, according to an investigation made a few years ago, were living in single rooms, as compared with about 1½ per cent. in Boston.

But there is yet another most important consideration entering into this matter of fares—the question of wages. The relation of wage-rates paid, to the average fare charged, is twofold.

First: Wages are by far the largest item of operating expenses, and, as between two systems using substantially the same traction methods and carrying approximately the same number of passengers per car, the one paying the higher wages must necessarily charge a higher rate of fare. If the system paying the higher wages also operates more lines and furnishes a larger number of cars for the amount of traffic handled, all the more reason why the rates of fare must be higher.

Both Glasgow and Boston use the system of electric traction. Boston operates more than three times more track, and runs 40 per cent. more cars in proportion to traffic. How about the wages. The pay of motormen and conductors in Glasgow ranges from 97 cents per day during the first six months to $1.22 after three years of service. In Boston surface-car conductors and motormen receive $2.25; elevated motormen, $2.30 the first year, $2.40 the second, and $2.50 the third; brakmen, $1.85; guards, $2.10; while all these employees receive 5 cents per day additional after five years of service, 10 cents after ten years and 15 cents after fifteen years. These rates are about double those paid in Glasgow.

From the operating standpoint, therefore, whether it be in respect to wage expense, trackage operated, or amount of car movement, or all three, as is actually the case, there is abund-

ant reason for higher average fares per passenger carried on the Boston system.

The second respect in which the wage matter relates to fares charged brings in the question of purchasing power. The differences between Boston and Glasgow street-railway wages reflect similarly wide differences between the general "run" of American and Scotch wages all along the line—not so great in some cases, of course; in others greater. It is one of the truisms of economics that prices are to be considered high or low, not absolutely, but solely with reference to the purchasing power of the community, and in a community where wages are practically double the rates prevailing in another, an average fare of 3¼ cents would be, if anything, somewhat cheaper than one slightly under 2 cents in the other; at least, so far as concerns the army of wage-earners and clerks, and their families, who constitute the great majority of the patrons of any urban transportation system, and are the people to whom the matter of rates and service is of chief importance.

It may be urged, as accounting for some of the relative advantages of the Boston system, that it is surrounded on all sides by "feeder" electric roads which deliver passengers from an area including a considerably larger population than is brought into touch with the Glasgow lines. The fact is, however, that the bulk of the business from this wider area is handled by the suburban service of the steam railroads. Hundreds of trains each day, in and out of the two great terminals in Boston, accommodate an immense traffic, and not only from outlying points, but from stations directly within the territory of the Boston elevated, and in constant competition with it; so that the accounts are probably square in this respect. As a matter of fact, the proportion of traffic on the Boston Elevated Co's lines which does not originate within its own territory, compared with the total business, is small.

The reasonable deduction from these somewhat extensive comparisons seems to be that, while public ownership and operation of street railways, under the favorable civic conditions of British municipalities, in most cases give a better and cheaper service than was afforded by the various private corporations it supplanted, even this improved service is relatively meager in extent, and usually of mediocre quality, compared with American experience; and that the municipalized enterprises would

break down entirely if subjected to any such tests as are commonly required under American conditions.

Glasgow was selected for comparison, as already observed, because it makes the best showing for municipalization, probably, to be found anywhere. In other British experiments results are less favorable, some of them markedly so; but in few of them have the facts ever been presented with sufficient clearness and fairness to warrant any very precise comparisons. The experiment of the London County Council in constructing electric lines in the south of London is a case in point. It appears that in 1899 the councils experts estimated the expense of this undertaking at about $1,242,000. It has only recently been completed, and proves to have cost some $4,800,000. In consequence of this excessive expenditure, there seems to be a fair prospect, according to the chairman of the Finance Committee of the County Council, that the expenses, and charges against these lines, will exceed the income, and the deficit will have to be added to the tax budget. Thus far, the net returns to the council from the south London system have not been anywhere near so great as those from the leased lines on the north side; but, on the other hand, the fares are somewhat higher on the private lines, and the service in some respects not so good.

The same uncertainty exists in regard to municipalization of electric lights. The London *Times* presents statistics showing that during 1901 the city of Salford lost $36,441 on the operating account alone of its electric-light plant, to say nothing of the charges on the $908,803 invested. Bath lost $6,024 in the same year, on a plant which was purchased for $119,217, and upon which $379,548 had been spent. Even after this expenditure, the works broke down, and the city tried in vain to sell the outfit to a private corporation. Bedford lost $14,598 on operating account; Bristol, $12,165; Morley, $9,732; Glasgow, $21,980; Edinburgh, $13,089. These facts certainly are striking. Granting that the *Times* was conducting a campaign against municipal ownership, and hence did not give the statistics for cities which may have had more favorable experience, the specific cases here cited are of such importance as to destroy any warrant for asserting in general terms that "municipal electric lighting is a success in Great Britain." It would be impossible to make such a claim, even if all the other experiments were financially satisfactory.

Coming to the United States, the briefest statement of the situation shows how slight a hold the public-ownership idea has obtained thus far. Chicago, it is true, has voted in favor of municipal ownership of the street railway, gas and electric-light plants; but in the present financial condition of that city there is little prospect of the proposal getting any farther. Thus far, only one community in the land owns and operates its own street railways, namely, Grand Junction, Colo., a town of less than 5,000 population. Of places of 3,000 population and upward, 193 are supplied with electric light by public enterprise, 1,190 by private; 20 operate municipal gas-works, 956 rely upon private companies; 1,465 have private telephone exchanges, while not one has embarked in this branch of municipal enterprise. Water-works and sewers, the two forms of municipal service requiring relatively the least of expert management and trained business judgment, are much more largely under direct municipal control; there being only 42 private sewerage systems against 1,045 public, and 661 private water companies against 766 public.

It is interesting to note that by far the larger number of municipally owned electric-light plants and gas-works are found in small places, where the conditions are relatively simple; very few of the large cities, where the demands of the situation are complex, extensive, and exacting have tried the experiment. Of cities of 30,000 inhabitants and upward, only four conduct municipal electric-light works, and three municipal gas-works; while in places of 3,000 to 5,000 inhabitants, 111 electric-light plants are under public management, and seven gas-works. In the six largest cities—New York, Chicago, Philadelphia, St. Louis, Boston, and Baltimore—both electric light and gas are supplied by private companies, with the partial exceptions that Chicago furnishes her own electric-street lighting, and the Philadelphia gas-plant, although leased to a private corporation, is owned by the city.

The Philadelphia experiment in gas-making is one of the interesting cases of municipal mismanagement on a large scale. After many years of operation by the city, the plant had so deteriorated and the financial losses to the city had so accumulated, the gas supplied was so poor in quality and high in price, and the political manipulations of the "gas ring" (which Professor Bryce says controlled 20,000 votes) became so notorious,

that after a thorough legislative investigation the whole outfit was leased to a private corporation for a term of practically thirty years, or from December 1, 1897, to December 31, 1927. The conditions of the lease provided for a complete rehabilitation of the plant, declining price and improved quality of gas, and liberal annual cash payments into the city treasury.

In the four years previous to the making of this lease the expenditures incurred by the city in connection with operating the gas plant, including salaries of office employees, furnishing of street lamps, rentals, betterments, etc., exceeded the income by $958,615.64, an average deficit of $239,653.91 per year. The item of betterments during this period averaged $365,498.02 per year. In view of the condition the plant was in when taken over by the private company, it is a fair inference that the bulk of these so-called "betterments" were virtually waste, yielding very little actual improvement in the efficiency of the works. But if we waive that point, and credit the full amount of the betterments to the city as permanent improvement of the plant, the current operating account, disregarding the betterments outgo, showed an average annual surplus of $125,844.11. In the six years after the lease the cash payments to the city by the private company, in consideration of the privileges granted it, amounted to $2,600,523.12, or an average of $433,420.52 per year. Thus the gain to the city on current operating account alone, under the lease, has amounted to an average of $307,576.41 annually, as compared with the four previous years. The private company now makes all the betterments (which go to the city free and clear at the end of the lease), and these must amount to $15,000,000 during the term of the lease, or an average of $500,000 per year. Adding to these guaranteed betterments the net gain on current operating account, it would appear that the average annual gain to the city since the lease went into effect has amounted to $807,576.41.

As a matter of fact, the company is making the bulk of the betterments in the first years of the lease. By the first of January, 1904, it had expended on this account a total of $9,608,199.50.

And this does not tell the entire story. The company furnishes the city with gas for street-lamps and public buildings, free of expense, and is required to increase the number of street-lamps to the extent of 300 per year, as ordered by the

City Council. At the same time, the average candle-power of the light supplied has increased from a range of from 19.04 to 19.47 in the four years preceding the lease, to a range of from 22.72 to 23 in the six years after the lease. The price per 1,000 feet is $1, of which 10 cents goes to the city treasury. The city has the power to reduce the price to 90 cents, if it chooses to forego its own revenue of 10 cents; after 1907 it may reduce the rate to 85 cents; after 1912, to 80 cents; and after 1917, until the end of the lease, to 75 cents.

In addition, the item of making service connection and installing meters, part of which was formerly charged to the consumers, is now borne entirely by the private company. The city has the option of resuming possession of the plant January 1, 1908, but only upon condition of reimbursing the private company for all betterments made in the meantime. At the expiration of the lease the entire plant is to be turned over to the city, with all the betterments, free and clear. The issue of returning to city management of executing a new lease will then come before the city of Philadelphia, and if those who endured the service as it was before 1898 were to be the ones to do the deciding in 1927, there is little doubt what the verdict would be.

The experience of Boston a few years ago throws additional light on the difficulties of municipal ownership in this country. Under Mayor Quincy, a number of new municipal bureaus or departments were created, through which the city undertook to do its own printing, electrical construction, carpentering, and repairing, furnish its own ice, and so on. Under the succeeding administration of Mayor Hart, an experienced business man, it was found that, instead of proving sources of economy, these bureaus were veritable waste-pipes leading from the city treasury, and they were closed up as fast as possible, with the exception of the printing-plant, for which a satisfactory offer could not be obtained. Among other things, it was found for example, that the electrical equipment of a ferry-boat, which under private contract would have cost only $6,800, cost $10,200. Electrical work in the city building for hospital nurses cost $4,754; by private contract it would have been $1,528. Work on a city armory, which normally would have cost $2,600, absorbed $6,700 of the city's funds. Ice for public drinking-fountains, which private companies were furnishing at $2 to $3 per ton, was costing the city $6.

Political appointees numerically far in excess of the requirements of the service, and individually incompetent as a rule, had brought the bureaus to this extravagant pass; and it was virtually impossible to resist the drift in this direction, because the Common Council would not vote money enough to carry on the work of the departments, unless "places" were made for the favorites of the aldermen, as demanded. Chief Electrician William Brophy, of the Boston Wire Department, reported to Mayor Hart:

> A glance at the pay-rolls shows that nearly 60 per cent. of the men whose names they contain were appointed at the request of certain prominent gentlemen, who, to say the least, are not the best judges of the necessary qualifications of the employees of this department.

And among these employees, it is hardly necessary to add, there was a more or less general adoption of that leisurely gait which already has come to be known on the state-managed industries in New Zealand as the "government stroke."

Civil-service regulations proved no safeguard against these aldermanic raids, and the efforts to get around the rules were even carried to the extent of supplying a variety of ordinary employments with new and singular names for which no civil-service examinations existed!

On the general question of whether such abuses could be overcome, and a civil-service system devised which would provide a really satisfactory selection of employees for socialistic municipal enterprises, it seems high time to remark that the extent of effectiveness of any civil-service test, where more than somewhat perfunctory service is required, is very easily overestimated. It has become a sort of fetich in the popular mind, to such an extent that very many participants in this line of discussion have made the tacit admission that *if* a rigid civil-service system could be established, it might then be feasible to place industrial enterprises under the management of government bureaus. But the truth is that no civil-service examination ever devised is adequate to select out industrial capacity, or catch in its meshes that indefinable, unclassified, evasive quality of practical genius which enables one man to take charge of a business undertaking and bring it through to success, while another, of equal or even superior technical knowledge, makes a total failure of the attempt.

Natural selection is the only method that has ever been found to develop the highest type of managing ability in the

industrial field, and no feasible substitute for it has ever been proposed. How would it be possible, for example, to establish tests of business policy and management which should be regarded as the accepted "standards"? There are, in fact, no accepted "standards" of policy for the successful conduct of business enterprises. The conditions of success are not only constantly changing, but they are widely different at one and the same time, in different plants, according to the situation, character of the market, previous traditions of the business, and a hundred and one features irreducible to concreteness. What might be regarded as essential business principles in one situation, and made the basis of a general competitive examination, might yield a group of successful candidates notably unfit to conduct enterprises under the varied and changing conditions of other situations not covered by these established tests. On the other hand, it is doubtful if some of the most successful managers of modern industries could themselves pass an examination of the sort which would probably be regarded as necessary to select the best managing talent.

To bring all these considerations to bear against the municipal operation of complex industrial enterprises is not, however, to concede the entire case to the opposite contention of unlimited private control. There are grave abuses and inadequacies in private management, here and there, as well as under public enterprise, although usually of a different character, and capable of being remedied by other means than sacrificing the positive advantages and permanent incentives to efficiency and improvement, furnished by the element of individual rewards and penalties. In other words, there is a middle ground of *public control,* to which attention may well be drawn, since here, indeed, is a really fruitful field.

The transportation system of Boston was selected for comparison with Glasgow intentionally, because it affords the best illustration in evidence anywhere of this attempt to solve the municipal-service problem along the lines of public control. The public control here exercised is both specific and general: that is, the Boston Elevated Co. operates under certain restraints and requirements imposed equally upon all street-railway corporations in the commonwealth, and in addition is subject to a comprehensive set of special regulations framed in recognition of the peculiar conditions of metropolitan transportation.

In addition to the various taxes already specified, whereby the public receives its contribution to the "Common Good," it is provided that, if any dividends are declared in excess of 6 per cent., an amount equal to the excess shall be divided among the cities and towns in which the company operates. In point of fact, whatever has been earned in excess of 6 per cent. thus far has been turned back into improvement and extension of the system, and this may be expected to continue for a number of years; the plans for development of the Boston transportation facilities are of a most comprehensive character, and the work is steadily in progress. The division of profits above 6 per cent. (8 per cent. in the case of all other street-railway companies) is probably the least important of the Massachusetts public-control features; it may possibly, however, act as some measure of protection of the Boston system and its present exceptionally public-spirited management, against becoming the prey of speculative interests ambitious to exploit the property solely for the quick profits to be got out of it.

The general body of Massachusetts street-railway legislation is very largely the outgrowth of an official investigation in 1897, by a special committee, whose report is perhaps the most valuable and suggestive that has appeared on the subject. This legislation is of an advanced character, providing very careful protection of public interests and close supervision of quasi-public enterprises. As a matter of fact, for more than half a century Massachusetts communities have held the power of life and death over street railway corporations, at short notice. The franchises of any such company are nominally perpetual, but they are subject to revocation at will in and by the communities through which its lines pass, the only appeal being to the State Railroad Commission. The commission may nullify the revocation, or sustain it if in its judgment the public interests so require, what ever the cause of complaint against the offending corporation.

In other words, a street-railway franchise in Massachusetts is what the investigating committee of 1897 termed a "tenure during good behavior;" the sole exception to this indefinite-term principle being in the case of the Boston Elevated Railway. In view of the extraordinary investment required for permanent plant, the Boston corporation holds perpetual franchises for the right of way of its elevated structures, subject only to

revocation of its charter; and, by virtue of taking over the West End Street Railway, the Elevated Co. operates under a twenty-year lease of the subway, originally granted to the former corporation. The surface-line franchises, however, are revocable by the municipal authorities.

The State Railroad Commission is not only the final arbiter of life and death for street-railway companies but it determines in the first instance, by careful inspection of the proposed routes, plans, etc., whether the capital stock to be issued corresponds with a fair estimate of the actual expense of construction to be incurred; and no corporation may issue stock in excess of that decision. All increases of stock must be authorized, and the price per share at which it may be sold to those already owning stock must be fixed, by the commission. The price so fixed must represent as nearly as possible the market value of the stock at the time. No certificate of original stock may be issued until the par value thereof has been paid in, in cash; and no stock or scrip dividends may be declared, or proceeds from the sale of stock divided among the stockholders; these restrictions apply to all public-service corporations. Bonds may not be issued by street-railway companies until the Railroad Commission is satisfied that the value of the real and personal property of the company for railroad purposes exclusive of the value of the franchises, equals or exceeds the amount of capital stock and debt. These provisions render stock-watering virtually impossible.

The railroad commissioners, also, may nullify at their discretion any location granted through a street for a new street railway or extension of an old one, in case a majority in value of the owners of real estate on that street, or ten such owners, appeal to the commission within thirty days after the location is granted. Even after the work of construction is completed, operation may not begin until the commissioners have certified that the laws relative to its construction have been complied with, and the board's engineer has inspected the line in detail and found everything safe and adequate. Thereafter the commission may revise or alter any regulations of a street-railway company for the use of its road or cars; may determine how and to what extent cars shall be heated; and the companies forfeit $25 for each trip upon which the cars are not so heated, unless the failure is due to an accident to the heating apparatus.

The district police are required to enforce this provision. If the commission considers that additional accommodations are required, after due notice to the company it may order such additional accommodations, and after one week from the service of such notice, if the company neglects to provide them, it forfeits $100 for each day of such neglect.

Transfer privileges may not be withdrawn except upon approval of the Board of Railroad Commissioners. The books of every railroad corporation must be kept in a uniform manner, upon a system prescribed by the commission, the accounts examined from time to time, and the results made public as the commission may consider expedient. Such examination and publication of results may be compelled at any time by application of any persons owning one-fiftieth of the paid-in stock of the corporation, or bonds or other evidences of indebtedness equal in amount to one-fiftieth of such stock—an important provision in protection of the minority stockholder, creditor, or bond-holder. A five-thousand-dollar fine is the penalty for refusal or neglect of any such corporation to exhibit its books and accounts whenever the commission requires.

These are only illustrations of the far-reaching supervision exercised by the Massachusetts Railroad Commission. No other in the country is endowed with powers so sweeping; no other stands so high in reputation for ability, fairness, and unimpeachable honesty. Only because its extraordinary authority is never abused is it possible to continue that authority in active exercise. The commission is securely intrenched in the respect and confidence of all elements in the community; so much so that it has become in many cases a custom of opposing interests, corporate and otherwise, to refer controversies to it for decision; and, although the decision is often adverse to the corporation interests, sometimes to the extent of important and expensive changes in plant or equipment or method of operation, the commission still remains the preferred tribunal.

The general attitude of the present commission toward the street-railway problem is admirably summed up in a paragraph of its recent decision in the Springfield case, referred to. The commissioners say:

> The operation of street railways in the larger municipalities has shown that the traffic within city limits can be handled with greater success and greater safety by one than by several companies. It will not do, however, for a company which receives the privileges of monopoly to forget the

obligations which go with them. The public in such case can look to the one company only for needful extensions and additional accommodations. In response such company should be quick to meet all reasonable demands. When it undertakes to perform the entire public service, it must carry out the task.

The Massachusetts Commission consists of three men, appointed by the governor with the consent of the special advisory body known as the "Council," and each holds office for three years. Its integrity is preserved through two considerations: the virtual absence of attempts on the part of Massachusetts corporations to control it by influencing the election of a "friendly" governor, and the positive demand of public sentiment for a commission that shall be above criticism. To appoint to this commission a man open to suspicion of representing special interests would be hardly less disastrous to the future political prospects of a public official than an attempt to "pack" the Supreme Court with political or corporate favorites.

It might be expected from all too familiar experience elsewhere that the power of revoking franchises would be in constant use as a club for blackmail extortion; and with a less active public conscience than still prevails, for the most part, in Massachusetts, it probably would be. But in the Bay State a liberally managed, law-abiding corporation is practically as sure of fair treatment and a long lease of life as if its franchises were absolute for twenty, thirty, or fifty years. In fact, the half-century of experience with revocable franchises was so satisfactory to all concerned that in all the hearings before the investigating committee of 1897 no request to change this feature was made by any municipality or corporation in the state.

Other public-service corporations are likewise under strict provisions of public control. Gas and electric-light companies are under the supervision of the State Board of Gas and Electric Light Commissioners, who have the power of examining accounts, etc. Telephone and telegraph corporations, and water companies, are under the state commissioner of corporations, who is also the commissioner of taxes. All issues of stock or bonds of any such corporations must be approved by these commissioners respectively, as the case may be, and must be on the basis that the amount is "reasonably necessary for the purpose for which such issue of stock or bonds has been authorized." Whenever the mayor of a city or selectmen of a

town, or twenty customers, complain as to the price or quality of gas or electric light furnished, the Board of Gas and Electric Light Commissioners must notify the corporation and order a public hearing, and after the hearing may order such reduction of price or improvement in quality as the facts brought out may warrant. The price so fixed may not be increased, except that any corporation may apply for a new hearing, if it considers itself aggrieved.

The annual expenses of the Board of Railroad Commissioners and the Board of Gas and Electric Light Commissioners are charged upon the various railroad and gas and electric-light corporations, respectively, in proportion to their gross earnings.

All corporations in Massachusetts, of whatever kind, are subject to state taxation upon the value of their "franchises," representing the right to do business—an express assertion of the principle that the carrying on of an industrial enterprise is a social privilege rather than a fundamental or natural individual right. The value of the franchise is determined by the state tax commissioner, and is arrived at by taking the total market value of the stock of the corporation at the time of the assessment, and making certain deductions therefrom, as follows: In the case of a telegraph or railroad or street-railway company, the value of its real estate and machinery subject to local taxation within the commonwealth is deducted; also so much of the value of its stock as is proportional to the length of its lines lying outside the state. In the case of telephone companies, the value of the real estate and plant subject to local taxation within the state is deducted; also the value of all stock of other corporations held by a "domestic" telephone company and upon which a tax has been paid in Massachusetts or any other state for the preceding year; and so much of the value of the stock of a "foreign"[1] telephone company as is proportional to the number of telephones it owns or controls outside the state. In the case of all other corporations, manufacturing, etc., the value of real estate and machinery subject to local taxation is deducted. And it should be noted that the assessments for local taxation of corporations are subject to equalization or alteration upon proceedings which the state tax commissioner has power to compel.

The differences between the total market value of the stock and the various deductions specified is considered to represent the value of the franchise, and this is taxed at the same rate as that ascertained for the general state property tax in any given year.

That a system of public espionage and control so thoroughgoing and rigid as this should have given satisfactory results, on the whole, and without serious abuses, is a tribute to the relatively high standards of civic life and general political conditions maintained—not without exceptions, to be sure—in the commonwealth, and it would take considerable optimism to assume that similar regulations would work equally well everywhere—or even anywhere—else in the Union. The city of Boston is the danger spot, and source of constant menace to the just exercise of these extraordinary powers over corporate property; and many times there has been occasion to realize how narrow is the margin of safe control in the hands of decent elements, which prevents the legislative system from being converted into a weapon of plunder in the hands of professional blackmailers and "grafters."

However, if Massachusetts has to fight at every step for the integrity of her public-control policies, where shall be found the justification for other and less favored communities rushing away beyond these limits to the extreme experiment of public ownership and operation? If an effective system of regulation cannot be maintained in our large cities, because of political corruption, what hope is there for the success of absorption outright, placing public-service facilities wholly in the hands of the selfsame political influences?

Public control retains the vital spark of individual enterprise and the incentive of private reward, which have kept alive the spirit of industrial progress and brought nearly all the material gains of civilization into being; and at the same time asserts in practical form the right of the whole community to hold self-interests within just bounds and guarantee to itself such benefits as its own contribution to the success of the enterprises entitles it to demand. There is "hard Yankee sense" in such a program. It does not violate the American idea of individual achievement. It has shown itself practicable under at least some American conditions. But the first task of the municipal reformer is to bring the general civic conditions themselves to

some permanent and dependable plane of honesty, public spirit, and cleanness. If public control cannot succeed on any lower level than this, what would happen to public ownership?

MUNICIPALITIES OR A JUST REGULATION? A PLEA FOR THE FACTS[1]

Dr. Howe, in his "European Cities at Work," gives recognition to a generous scope for municipalism. His program takes in, for the field of economics, municipal transit, gas, electricity, water, telephones, dwellings, ferries, river boats, markets, slaughter houses, bakeries, savings banks, pawn shops, house-renting agencies, and public works departments; and, for the field of social welfare, for adults, theatres, music halls, rathskellers, legal aid offices, and employment bureaus having on sale food and beer, and, for children, playgrounds, milk depots, medical attention, and feeding at school. This, the doctor holds, is a "happiness program."

The time at our disposal to-day permits us to take up for consideration only a few of the municipal projects which the doctor advocates. We select the undertakings requiring in their operation a fixed and exclusive use of the highways, such as gas, electricity, and street railways. The doctor demands for these municipalization throughout, in order to establish conditions which shall result in the highest common good. This principle calls not only for a community ownership of the highways but also a community ownership and operation of the undertakings. The principle is thorough communism in the proposed scope of activity.

Against this principle stands another, which, recognizing the common ownership of the highways as essential for movement of man and his belongings from place to place, demands, in order to establish conditions which shall result in the highest common good, the forms of competition in ownership and operation of these undertakings which experience has shown to be practicable. Under this principle, franchise, contract and regulation would be the bases for the public work which requires an exclusive occupancy of the highway. The community, as owner of the highways, would prescribe—clearly,

[1] By J. W. Sullivan. Published in "Shall the Government Own and Operate the Railways, the Telegraph and Telephone Systems." p. 60-75. National Civic Federation. New York. 1915.

sharply and fully—private operation, evading grants of monopolistic powers by stipulating prices and character of the service. The community would permit the capital engaged in such operation to earn, if it could: 1. Current interest on investment in the working property for an enterprise. 2. Wages of superintendence and labor. 3. Compensation for risk in initiation and maintenance. 4. Fair yield from the increase of business, or economy of operation, arising from energy in administration and improvements in methods and machines. Further, the community would guarantee: 5. Preservation of the due regard for vested interests necessary for an established confidence in the rectitude and integrity of organized authority. Manager and investor must have guarantee that where they sow they may reap.

This principle of regulation, with its essential particulars as just given, was maintained by the representative private operators of public utilities in the United States who were on The National Civic Federation Commission of eight years ago. Through such regulation the community and the franchise holders would be expected to achieve the recognized benefits arising from the principle of free industry.

We have here two principles, two methods, two social ideals —economically irreconcilable and socially antithetic. Strangely, in this enlightened age of official reference books, engineers' and auditors' trade periodicals, and continuous investigations, the controversialists supporting these opposing principles give the public two widely varying stories of the civilized world's experiences in municipalization.

The citizen, in his struggle to understand this problem and form a fair judgment upon it, is of a certainty entitled first of all to a knowledge of the decisive facts in the case as up to the present developed. Dr. Howe, in "European Cities at Work," has voluminously given his testimony on municipal ownership, and the present is an occasion to examine, in some of its most salient points, the value of that testimony.

One of the most highly important of Dr. Howe's statements (page 339) is that in 1910 the municipally owned street-railways of the United Kingdom carried 2,102,483,000 passengers, who paid on the average 2.1 cents fare, amounting to $47,437,170, and that "had these car riders paid the average fare of five cents charged in America they would have paid

$105,124,150." Here is an alleged difference in one year, to the disadvantage of American street-car fare-payers, of $57,686,980. But, the doctor's comparison overlooks two facts that count heavily in street-car fares; first, that only a small percentage of the British municipal tramway systems issue free transfers, and secondly, that besides giving transfers many American street-car systems sell six, and at least one large city seven, tickets for twenty-five cents.

On a British tramway system—let Glasgow be taken as the example most favorable to municipalizers—a car-rider going on a one-way double-elbow trip requiring two changes of cars pays three fares, and on returning three more. In the tramway reports his round trip consequently counts him six passengers. In America—take New York as an example—a passenger on a similar broken journey may make his two changes of cars by a double transfer on a single fare. His return trip, with its two changes, he makes on one more fare. In the reports for revenue producing traffic, he figures for the round trip as only two passengers, instead of Glasgow's six.

No record is possible of the number of British passengers paying fare after fare either on a single or a round trip. But in the larger American cities, by the state reports, the proportion of transfers to cash fares rises to 40 per cent, and for the entire country, by the census reports, it is more than 20 per cent. Since the British municipal tramway systems are generally in the larger cities, with small suburban extensions, at somewhat the same ratio, the riders paying fares who in America would get transfers may be 30 per cent. That proportion would reduce the British passengers paying a five-cent fare in this country from 2,102,483,000 to 1,471,738,100 yielding $73,586,905, and not $105,124,150, Dr. Howe's figures. But again, if only 10 per cent of the 1,471,738,100 passengers were to ride on six-for-a-quarter tickets, the $73,586,905 would be cut down further by more than $3,500,000, reducing the $105,124,150 to about $70,000,000. The doctor's error in his comparison as to fares would on these estimates be at least $35,000,000. Reduce them by 25 per cent and we have left for his error more than $25,000,000. As to the passenger's outlay and the character of service given him, if the fare for long rides and the convenience through length and spread of trackage is not considered, a grave error of omission is made. On the point of

total mileage of the rides of all the passengers, no statistics are possible, but comparison as to the mileage of track per route and per system can be shown. Glasgow's longest route is a fraction short of fifteen miles, the round-trip fare being 28 cents. (W. D. Mahon, Report to the American Federation of Labor.) New York's longest route one way is not far from equaling Glasgow's ordinary round-trip, and it costs only five cents. Glasgow's whole tramway system in 1914 has 194 miles of track; Boston, with about one-fourth less population, has 470 miles. Glasgow has one mile of track per 5,154 inhabitants; Philadelphia one mile per 2,350, immeasurably the greater accommodation. For distances beyond 5.8 miles Glasgow's fares are higher than the American five-cent fare. In all British cities, except Glasgow, tramway fares for distances above five miles are higher than five cents. In all British cities, fares beyond three and a half miles are usually higher than the American fare and the transfer. To sum up, for all areas beyond three and a half miles, American cities have the cheaper, and they have by far the more convenient service. Even the fare per passenger per mile of the American systems, as computed by American companies, is less than Glasgow's lowest zone fare per mile. It is to be borne in mind besides that five cents counts less in the American wage-worker's wage than three cents in the British wage-worker's wage. British tramway systems have little suburban and next to no interurban service. They invariably stand second to American systems in speed, headway, car-lighting, and in an all-night service. European city transit managers are abandoning the rule of a seat for every passenger, borrowing from America the practical idea that, especially in rush hours when all the cars possible are run, the extra people want to travel speedily to their destination standing in the cars rather than to lose time and endanger their health standing on the street corners waiting exposed to the weather. The cities of Great Britain, after American companies had for a decade conducted electric street railway operation through its early stages at a cost of millions of dollars—the so-called wastage of experimentation—took without payment the costly scientific results of American initiative and enterprise and only then set up their electric systems, beginning their work with American engineers and buying their supplies from America. If superiority in extent of

development signifies superiority in the elements that insure development, America, with 40,070 miles of street railway trackage has no need in 1914 to stand apologetically or in the attitude of humble tutelage before Great Britain with 4,303 miles. Let the full compass of all the relevant, significant, and decisive facts, such as the foregoing, be brought into view in comparison between British municipal and American company street-car systems.

Electricity municipalized stands high in Dr. Howe's favor. Forty-four of the fifty largest cities in Great Britain, he writes, have municipal electric plants, but with what results he does not mention. On the other hand, in "London Municipal Notes," January, 1914, is this statement: "The return on last year's working on electricity undertakings belonging to municipalites showed that 45 were being run at a loss to the ratepayers." In an analysis of the Census of Production report on electricity, the London Municipal Society publishes the statement that if the municipal electricity undertakings of the United Kingdom were taken over by the companies the cost to the consumer would be lowered by $800,000, the basis of this inference being the census cost per unit as sold by company and public authority. In the United States, the ninth edition of "Defunct Municipal Lighting Plants," 1913, gives a sketch of 212 municipal electric plants that, after trial, usually financially disappointing, have been passed over to companies. A United States Census report of 1912 gives the operating expenses per $1,000 gross income of commercial (company) and municipal central stations: Fuel—Commercial, $109.12; municipal, $188.44. Supplies, materials, wages, and certain miscellaneous expenses —Commercial $298.29; municipal, $373.67. Taxes—Commercial, $47.03; municipal, $1.34. Rent of offices, conduits, underground privileges and water—Commercial, $15.14; municipal, $3.02. The story of these figures is that in purchasing and in the number of employees the outlay of the companies runs far below that of the municipalities, while in the items by which the accounting may be confused or evaded the municipalities can insert small figures and postpone the final day of exact reckoning. The net income of the central stations in 1912 was—Commercial, $46,814,837; municipal, $6,301,824. The attention of a Congressional Committee has been directed to a computation that if the commercial stations had charged municipal rates

their income would have been more than quintupled, $259,985,-014; while if the municipal stations had charged no more than commercial rates there would have been a deficit of $3,461,243.

In his chapter on gas, Dr. Howe, taking his figures from the "Municipal Year Book," 1912, after stating that the average price of company gas in the United Kingdom is 66 cents, or ten cents more than municipal gas, gives in a second table a list of fifteen cities which sell municipal gas below 60 cents, but he prints no table of companies which sell gas below 60 cents. Against the doctor's presentation of the case stands a comparative table published by the Secretary of the London Municipal Society, in which in 1909 the price of the gas of twelve principal municipal undertakings (nine of them being represented in Dr. Howe's table) is shown as against the price of ten principal companies in the Kingdom. The average price for these ten companies was seven cents lower than the average for twelve municipalities. The municipalities had the advantage of a population of four and a half millions against two millions for the companies. The manager of the Bradford Municipal gas works, as President of the Institution of Gas Engineers, viewing all England as the scene of gas production, said in his annual address in 1906: "The large majority of gas works owned by local authorities were in the North and Midlands, and principally in the manufacturing districts, where they had many advantages. On the other hand, the companies predominate in the South. It is interesting to note that there were two counties in the South of England (where coal is high in price) in which 105 gas companies were established, but where there was not a single gas undertaking owned by a local authority." The Secretary of the London Municipal Society says that municipalities have occupied the richest fields of trade, the populous communities near coal fields; the companies are the pioneers in poor and unremumerative areas; the municipalities make up their shortages on consumers' prices by taking the best prices for their own street lighting; the difference in the quality of gas is in favor of the companies; and the losses on municipal gas, where they occur, must be made up by the taxpayers. Further, the Secretary says the Government authority, the "Parliamentary Returns," give no such figures for average prices as those quoted by Dr. Howe from an annual which leans to municipalist propaganda. The Govern-

ment figures showed, in 1909, 219 municipal gas undertakings and 499 company undertakings, and a fallacy of an average price of company gas for the Kingdom is seen on looking over the long list of small towns, some in remote districts in Ireland, where the price runs up to a dollar or more, each unit to be compared with the municipal units representing the cream of the business. Comparing like with like, the London Municipal Society's secretary says, "The gas supplied by companies is cheaper than that supplied by municipalities."

Dr. Howe's studies of the municipal market systems of London, Paris and Berlin have permitted him to deal with statistics relative to them after his manner with tramway figures. "All London," he says (page 314), "with its 7,000,000 people, is dependent upon Covent Garden Market, owned by the family of Bedford, from which the present Duke enjoys a princely revenue; and so powerful are the present owners that the London County Council has never been able to secure the right to open a market for its own even on the land which it already possesses." The printed official reports show that the City of London's public system of wholesale meat, poultry, fish, cattle, and provision markets, located in various parts of London County, cost more than twenty million dollars, while within the boundaries of London County there are 110 public retail open markets. Smithfield, the largest public market, sells at wholesale 41 per cent of all the meat sold in Great Britain. Billingsgate is the public wholesale fish market, not only for London, but the southeast of England. Covent Garden, as a fact, sells no meat, fish, poultry, or butter, cheese or eggs. It is a fruit, flower, and vegetable market, less than two acres in area. The princely revenue of the Duke of Bedford from Covent Garden is a wild guess touched up with a rhetorical flourish. The Bedford estate office never made any reports on the property, and the testimony given by the Duke's agents years ago indicates a probability that not even ordinary interest came from the investment. The Bedfords, in fact, offered four times to sell the market to the London County Council and its predecessor, the Metropolitan Board. With much other of the Duke's real estate of the locality, it has within the last year been sold twice, and the London County Council made no bid for it.

Of the Berlin market system Dr. Howe writes: "There are now fourteen city markets in substantial buildings, and so located as most easily to distribute the incoming farm produce of the railways, river, and canal ways to the retail dealers and consumers of the city." What are the facts? Four of Berlin's fifteen market houses are closed; four others barely pay their way, as shown by the testimony of the municipal books. In 1911, eight of these market houses had less than half their stalls occupied. Counting interest on investments the entire system has lost $20,000 a year the last four years. The failure of the system in its attempted function of distribution was due to the superior advantages to the community afforded by the department store and other private markets.

Of the Paris markets, Dr. Howe states: "The total revenue from the system of central and local markets in 1906 was $1,817,164, and the total expenses $318,923, leaving a profit of $1,498,241." The official report of the markets bureau of Paris shows year by year receipts of about two million dollars from the Central Halls, the local markets, the cattle markets, the slaughter houses, the great wine depots, etc., scattered about in many parts of Paris, the entire plant costing $30,000,000. The receipts from the Central Halls and the local markets together have never reached within $600,000 of the $1,817,164 alleged by Dr. Howe. The official reports set forth no profits.

The financial differences between Dr. Howe's reports of the Berlin, London, and Paris markets and the official reports run up into millions of dollars. The municipal market systems of the three cities all lose money.

But, if municipalization has so turned out in the leading features just particularized, how did it ever reach its present stage? The reply requires a correct appreciation of just what that present stage amounts to in Europe. In reality, municipalism has made far less advance over there than the talk about it might indicate. The transit systems of Berlin and Paris are not run by the municipalities—neither the elevated road nor the trams or stages of Berlin, nor the subways, trams or omnibuses of Paris. Nor are the underground railroads or the omnibus lines of London. The gasworks of these three cities are also operated by companies. So are in number approximately five-sevenths of all the gasworks of Great Britain. In Germany, 134 tramway lines are managed by companies to

75 by local administrative bodies; in Switzerland, the proportion is 33 to 8. In France there are no street-car systems municipally operated and few of other great undertakings. In Great Britain, it is to be borne in mind, the cities which have municipalized their tramways mostly inherited them on the expiration of company leases. The cities took over the old company property, as commonly said, at "a scrapiron" valuation; they bought the new equipment for their roads from American companies, and they acquired modern American ideas, developed at the cost of American companies, without price.

High tide in the propaganda of municipalism in Great Britain was reached a decade ago. In 1901, a leaflet issued by the London advocates of municipal ownership, speaking of the then new London municipal tramway, announced: "The system is now earning £100,000 per annum. . . . It is estimated that, at no distant date, from £1,000,000 to £2,000,000 per annum may be secured from the electrified Progressive tramways of the Metropolis." The actual results have been that from 1897 to 1903 revenues from the system were applied to the relief of local taxes to the amount of £300,000, all of which sum, according to the findings of an official commission in 1908, ought to have been applied to the liquidation of debts contracted at the organization of the system. From 1903 to 1907 there were no profits. On last year's operation the deficits were $440,000.

The bright side of municipalization (the theoretical and prophetic) was much on exhibition in the era of that famous leaflet—before jarring experience turned around the dark, unpleasant side (the results of practice) to the disappointment of the prophets and the disgust of the communities. That bright side was seen, in its alluring glitter, before the birth and death of the municipal Thames river boat system, loss $1,500,000; before Glasgow's municipal telephone venture, loss $275,000; before the deficits of various British municipal tramways amounted to $250,000 in a year; before the enforced closing of the London County Council works department, loss $150,000, and its furniture factory, through failure to compete with contractors; before it was demonsrated by time that every municipal dwellings system in England was a financial failure and Miss Octavia Hill showed why; before the municipal indebtedness in Great Britain rose in ten years from $1,945 to $4,585 per 100

of population; before the intricacies and the evasive over-lapping in municipal bookkeeping were made plain to the public—such as charging to the street department the street opening and paving for municipal tramways where companies were obliged to defray this outlay, and reducing to an absurd entry the annual loss through depreciation, and making little or no allowance for city auditing, policing, clerical work, and committee managing; before the Socialists of London and the Single Taxers of Glasgow declared that municipalization had had no effect on poverty and was "mere municipal capitalism"; before the reaction in South Germany, where the newspapers recently published a list of forty-two towns in which municipal majorities or parties expressed themselves either against any extension at all of municipal trading or against particular objects; before the utter failure of municipalism in France and the majority votes against it after trial in Lille, Marseilles, Toulon, Dijon, and Elbeuf, the Mayor of the last-named city, an estimable municipal enthusiast, committing suicide when his theories terminated in general disaster; before the Syndicalists of France, obtaining a steady majority in the national labor conventions, mercilessly flouted the vote-huckstering municipal misleaders of the masses; before London turned out for good its municipalist majority from the County Council, which happened seven years ago. Yet Dr. Howe could write in his book in 1913 that the British "official who would propose a return to private management would probably not survive the next election."

In the United States there has been a chapter of municipal ownership happenings which deserves to be borne in the mind, though regarding it the promoters of municipalism seem to have adopted the motto, "Forget it." New York has that grand object lesson, the municipal ferry system, loss in nine years, $4,500,000; it has had a reform municipal ownership group of eleven aldermen, price of their vote, confessed in court, $5,500; it has had a municipal electric lighting system now completely extinguished, combined with a municipal rubbish incinerating plant, loss $109,000; it has several monumental city and county buildings, perfect models in their unsuitableness of construction and wastefulness of administration, to be admirably studied by municipalists. Chicago's Sanitary District electric lighting plant has lost $210,000 in a year; Detroit,

Syracuse, Wheeling, Philadelphia, Seattle, Cedar Rapids, and Richmond have beautiful records of municipalization to be profitably perused. No more significant event in the controversy over municipal ownership has occurred than the investigation carried out by the National Civic Federation Commission of twenty-one in 1905-7, of which seven literary members had previously been attracted to the support of municipalization—three of whom, indeed, were among its foremost advocates in this country. When, after nearly two years of preparation and investigation the formal, decisive, and final vote on the question was taken by the twenty-one, every member declined to advise this country to take up with municipal ownership. It may be ventured that with the findings of that commission the positive trend was taken in America toward the principle of a just and efficient regulation. Since then regulation has trimmed many a company of its privileges or prevented many another from obtaining undue privileges, with a financial saving to the public beyond calculation.

The status of labor under municipal ownership, as type and example of a condition possible to labor generally under government ownership, is of a higher social importance than dollars lost or gained. An American literary municipalizer writes in a magazine concerning European communities that they "would not permit a soulless corporation to plunge the city into periodic miniature civil war because of a dispute regarding wages or hours." The municipal car-men, he says, occupy much the same position as mail-carriers or policemen. True, strikers against municipalized undertakings are treated as mutineers; the position of the municipal wage-working employee is that of a common soldier directed by a drill sergeant, whose whip is a discharge which closes to the man other municipal employment everywhere. Among the assumed certainties of the early theoretical municipalizers was that municipal employees would not or could not strike. But bitterly contested tramway strikes, viewed by the authorities as rebellions, have taken place in the last four years in Leeds, Stockport, Blackburn, Cardiff, Oldham, Liverpool, and Glasgow. After the Glasgow strike in 1911, 400 of the strikers were victimized and never allowed to return to the service, and after the strike in Leeds in 1913 practically the entire tramway force was similarly victimized. In Glasgow, in the seven years, 1901-8, 1,228 traffice employees

were dismissed and 2,384 resigned, a number equivalent to a change of the entire traffic force every four years, testimony to an unhappy situation. The Glasgow tramway management, maintaining an open shop, permits no labor union of employees to exist and no employees to take part in politics. Were all Britain to imitate the attitude of Glasgow's municipal committee and managers toward labor, no employee would be permited to exercise his full rights of citizenship, no man would be taken on at work without a civil service examination, no trade agreement could be thought of, no liberty of association among the wage-workers could exist, no work at his trade could be found by a man once blacklisted, and no labor movement would be tolerated in the country. Striking through politics was attempted in Great Britain by a Municipal Employees' Society, its stealthy weapon, the menace of a knifing vote, but the body was repudiated by the British central trade union organization. Thus municipalism has carried ruin to labor organization, in both its economic and political forms.

It is well for the wage-workers of this country that every year the American Federation of Labor sends two of its prominent members to Great Britain and some years more than two. All return vividly impressed with the vigor, vitality, and social value of American ideas, principles, and methods. One pertinent example: W. D. Mahon, the President of the organized street-car employees of America, just returned from an investigation, has reported to the American Federation of Labor that in his occupation money wages in the United States are 100 per cent above the highest paid in Europe, that there is no appreciable difference between the wages paid by companies and municipalities, and that the tramway systems of Europe are not to be compared with the street railway systems of the United States. "The American system," he says, "is not only cheaper to the public, all things considered, but the service is better, with a great deal more of it." Wages for the municipal employees in Great Britain have not been advanced at a quarter of the rate that they have been for the street-car men in America through the methods of the trade unions dealing with business-like employers, manfashion, equals with equals, buyers and sellers in the labor market.

Municipalism breaks down trade union principles; it substitutes for them a one-sided dictation which strips labor of

independent action in its own behalf, clothes managers with the powers of an upper caste backed by the forces of law, and to the extent that it prevails, establishes in society a condition destructive of democracy. On that score alone, the American wage-worker needs only to have experience with it to reject it. But the American wage-worker, a citizen with the cause of his country at heart, may be depended on to weigh the facts in general relative to municipalism, when he finally obtains access to them, and render fair judgment in the case. Further, whatever is to be said of contests over wages or of the social unrest, it is usually a fact that American employees regard their employers as friends for whose rights they will contend as they would for their own, and if municipalism is to be built up on abuse of the employer and deprivng him of any of his just rights it to-day stands small show of success.

The "temporary lull" in the advance of municipalization in Great Britain, admitted nearly a decade ago by its advocates, has since become generally recognized as not a "lull" but a complete halt. On the Continent, as we have seen in our summary to-day, municipalization is a past chapter in the history of economic panaceas. In the United States, the attempt at the Philadelphia Conference of Mayors in November to inject life into the corpse of municipalism as a vote-catcher fell flat, its only academic supporter present among the politicians being Dr. Howe, with his reiterated infantile guesswork observations, his unbolted statistics, and his blissful ignoring of the recorded facts that have disproved his dreamy theorizing.

What is the matter with municipalism? The reply is that it brings with it bureaucracy—inelasticity, "over-staffing," sinecurism, the evils in general of political management; and the menace of a million united municipal employees; and a tyranny over the million by the superior officials; and a confusion in city finances, with constant difficulties in accurate accounting; and withal the blundering, inertness, costliness, and injustice of misapplied government. It leads the citizens of a community to lose the distinction between "mine, thine, and ours" in liberty and property; it teaches its employees of all grades to look for aid to legislation rather than to themselves; it points to social deterioration through its imperfect mechanism; it carries economic waste toward a maximum.

SOME LIMITATIONS AND OBJECTIONS TO MUNICIPAL OWNERSHIP[1]

Of the usual reasons advanced for the operation of public utilities by municipalities is that utilities will thereby be removed from politics and that public utilities are now in politics and control municipal councils, and thereby secure to themselves special privileges of great value and thwart the public in its efforts to secure proper service at reasonable rates. Public utilties have been in politics. They did not go into politics from choice—they were obliged to go into politics to prevent their property from being wrested from them or plunged into bankruptcy by reason of the unfair and unjust demands made by the councils. The members of the councils making these demands claimed that they were representing the people when in fact they were representing themselves, seeking to remain in office, and to that end sought to impose great burdens and obligations upon the utilities so that they could point to such an achievement as a reason for their advancement to a higher official position or to being returned to the one they then occupied.

Numerous instances can be cited and proved by evidence competent in a court of law where municipal councils compelled public utilities to enter into politics in order to save their corporate life and property, or compelled them to pay large sums of money for a privilege which they should not have been compelled to seek, but which the municipality should not only have offered but should have insisted upon the utilities' accepting. By the imposition of burdens upon public utilities, the members of councils claim they have done something for the public. That they have thereby worked harm to the public would seem clear—for every unnecessary burden placed upon a utility either lessens the utility's ability to afford better service, make extensions or reduce rates.

I can cite many instances which I know to be true—one or two may be sufficient—where councils have acted contrary to the best interests of the public.

[1] From article by Clarke M. Rosencrantz, of General Counsel, The New York City Milwaukee Electric Railway and Light Company. Annals of the American Academy. 57: 254-73. January, 1915.

In most cities the result of any election is dependent upon the position taken by a very small proportion of the total vote cast. Utilities employ large numbers of men. They are no different from other men. They naturally desire an increase in wages and a shortening of hours of service. The man or men running for public office in a city where the utilities are municipally owned, who gives the greatest assurance that either or both of these desires will be realized, will be elected. It will be to the interest of the employees to enter and remain in politics, and they will be able in almost all municipalities, to conrol the result of any election. Municipality owned utilities will bring them and their employees into politics instead of keeping them out.

It is also claimed that under municipal operation rates for service rendered will be much lower than where the utilities are operated by private corporations. This is stated broadly and positively by all the advocates of municipal ownership; but I have yet to find any instances where an examination of their accounts will show that the rates have been less without showing a deficit when proper charges incident to the cost of service were made.

What makes for success in the operation of any business enterprise, and a utility is a business enterprise? Does it not depend upon the skill, knowledge and experience of the men in charge, taken together with an opportunity for a continuity of policy? The man who operates any business enterprise cheaply and successfully is the man who has given it years of study and who brings to bear upon each new problem the result of his study and experience. In other countries, where the government is more stable, where it is bureaucratic instead of democratic in character, and where the men in charge of public utilities remain in office for long periods of time, the results do not show that the utilities are better managed—more economically managed—than similar utilities in the same countries which were under private control.

The rates charged by any municipally operated utility must be sufficient to pay for the cost of service. If they are not, then the non-users must make up the deficit and their proportion of that deficit will be included in their tax bills. If the public operation of utility companies is likely to be successful, we ought to be able to find without any difficulty that those

which have been for many years, owned and operated by municipalities, have been economically and efficiently operated. The history of our city management shows that the contrary is the fact.

I appreciate that many cities claim that certain municipally operated public utilities have been operated satisfactorily to the public and were operated much more economically than under private ownership and at a less cost to the users. Income accounts and balance sheets are presented to sustain that claim, but any proper examination of those to which I have had access with a proper allocation of items shows that, instead of being operated at a profit, they were operated at a loss.

It is quite customary for people advocating the adoption of any new policy to point to results in other countries of the policy sought to be adopted—usually so remote and under such conditions that it is difficult, if not impossible, to make a fair comparison. We are able to know the result of municipal operation of some public utilities by cities near at hand and cities where the administrators of public affairs have a longer tenure of office than they do in this democratic country.

The city of Edmonton, Alberta, Canada, having a population of about 90,000, believing that municipal ownership of public utilities was wise, has owned and operated its public utilities for a period of years. It did not purchase existing utilities but built new ones, and the *Official Gazette,* which is published by authority of the municipal council of that city, on April 2, 1914, pointed out that its railway system had a deficit from operation of over $400,000; its telephone system, a deficit of over $100,000; and its waterworks, a deficit of $100,000. In the *Official Gazette* of Edmonton, under date of April 30, 1913, Mr. John Chalmers, commissioner of operation, stated:

> Prior to 1913, no provision had been made for depreciation or replacements, and as much of the plant and properties will not be useful for the period covered by the lifetime of the bonds, particularly as some of the early issues were for forty years, and also that equipment must be superseded by more improved types, it was decided to create a fund to take care of this proper obligation.

In another part of his report he stated:

> Our present financial condition is not exceptional to all other street railways west of Winnipeg. Systems in Saskatoon, Brandon, Regina, Lethbridge and Calgary, all equipped with modern apparatus, operating under the same rates of power charges, are showing deficits. Lethbridge is reported to have lost $30,000 the last year; Brandon is losing $100 a day.
>
> Extensions were made into sparsely settled territory where they could not pay even a small fraction of the operating cost.

The annual report of the city engineers of Edmonton for 1913 says:

> There has been a heavy loss in the operation of this department for the fourteen months amounting to $129,636 and after paying the newly established reserve for depreciation, the loss has been considerably increased and the total deficit to date is over $405,394.

The city of Duluth owns and operates its own water plant and system. Great claims are made concerning economy of operation. In one of the Duluth papers it was recently stated that in order to maintain the low rate charged for water, a tax is imposed upon all property. This of course is in the nature of a subsidy. A private corporation if it received a subsidy from taxpayers might of course give lower rates than it could otherwise. So, too, it appears from statements made in the Duluth papers, published within the last few months, that the entire water supply of the city of Duluth is brought by one main which is in bad physical condition. Think of what would happen to a private corporation if it left a city—no matter how small—dependent for its water supply and fire protecton upon the continued efficiency of one main! If that fact were known, the executive officers of such a company would be obliged to leave the city between two days.

In the city of Athens, Ohio, after eleven years of municipal operation, the people—at the election in 1914—by a most decisive vote decided to turn over the electric lighting plant to a private corporation for operation, as the municipality had been unable to operate it properly.

In September of this year the city of Hanover, Kansas, decided to turn over the operation of its municipal lighting plant to a private corporation, the city's operation having been unsatisfactory and non-economical.

The people of the city of Chariton, Iowa, at a special election, voted to sell the municipal plant to a private corporation. That city had operated its municipal lighting plant for twenty-five years and found that it could not supply its citizens with electric energy as economically as it could secure it from a private corporation.

The city of Elbow Lake, Minnesota, has during the present year sold its municipal plant, as its experience for a period of over fourteen years has shown that the result of the operation had not been satisfactory and they could not supply the citizens with electric service as cheaply as it could be secured from a

private corporation. These cities are small but it is in such cities that the voters can know what public operation costs—accounts cannot be juggled as they can in the large cities.

The city of Toronto, Canada, believing it desirable to own and operate its municipal electric plant entered upon that project, having been assured that it would cost but $2,750,000. The total expenditure before the system when completed was $7,500,000, and it was found that to protect itself against the interruptions inevitable to a high-tension line from a hydro-electric plant, a steam standby would have to be constructed at a cost of more than a million dollars.

The city of New York a few years ago, and I am sorry that I do not have the figures, being satisfied that it could operate the Staten Island ferry better than the private corporation, much more economically and much more efficiently, and turn a great sum of money into the coffers of the city and relieve the taxpayers, acquired and has since operated that ferry. The thousands the city has lost I will not pretend to say, but it is a matter of public record that the municipal ferry has been operated at a loss every year since the city took it over.

Many cities have been investigated by bureaus of public efficiency, and we do not find that in those matters which are properly within the province of municipal operation, there has been efficient and economical management.

It is claimed that municipalities can raise moneys for public utilities at a less rate than can private corporations; that this cannot be done where the plant alone is pledged would seem clear. It can only be done, if at all, where the city has a wide margin between its existing indebtedness and its bond limi, and it will guarantee the bonds so that it will be obliged to make up any deficit occasioned by losses in operation by resorting to taxation, or where the securities isseud by the city are not subject to taxation.

Commissioner Erickson of the Railroad Commission of Wisconsin in a paper recently read before the Michigan Electrical Association stated that when cities issued special improvement bonds which were secured only by the property affected or the income therefrom and were not made a charge against the city, that cities were required to pay fully as much in interest as was paid by public utilities.

It is also claimed that under municipal ownership the large salaries paid to corporate executive officers would be eliminated. This is probably true; but I do not think that there is anything in connection with the operation of any utility by a municipality which would attract a $25,000 man so that he would accept a $5,000 salary. In various countries, one of which I may cite is France, while salaries were reduced, the number of officers had been increased. Sixteen officers were required to do the executive work in one branch of a state operated railroad which had formerly been done by three and their salaries aggregated more than had been paid the three. The financial advantage of employing sixteen men at lower salaries where the aggregate salaries were largely in excess of the amount of the three, does not readily appear to me.

It is further claimed that under private ownership the public is required to pay rates which will furnish an income upon watered stock. This is a favorite claim, but, with regulation, it amounts to nothing. It is of no consequence to the public in fixing the rates which the utility will be permitted to earn, whether it has stock outstanding aggregating $1,000 or $100,000,000. The rates are not fixed upon the amount of stock or bonds outstanding but are fixed solely that but a fair return will be realized upon the money actually used for the public service.

There is an apparent belief that the successful operation of a public utility does not depend upon a continuity of management. Just what that is based upon, I have never been able to learn. Under our government the tenure of official management is not secured for more than a brief period. A policy may be barely under way when it may be superseded by that advocated by a new management resulting from a new election.

Can any of you gentlemen hope to remain at the head of your municipality for more than two terms, and is it not probable, with our ever-shifting political views, that you may not even enjoy a second term? Does the public care how well or how ill you conduct your office? Of course if you conduct it ill you are furnishing ammunition for the "outs" and you will be all the more certain of retirement at the end of a single term. Must you not have the cooperation of your board of directors—the members of your council—in order to be able to carry out any policy? Can you be certain of having it?

What makes for efficiency in any service? Is it not a desire, with a reasonable hope of having that desire fulfilled, that one will secure advancement—a better position—will secure the job of the man higher up? What can you do to reward any man in the public service whose efforts are such that he is entitled to advancement; can you do anything for him? Does the general public know whether he does well or ill? He cannot be expected to do his work with as much earnestness as he would under a private corporation where the success of his efforts could be rewarded, where he could be advanced by the executives of his company, and if they did not do so, where he would be in line for a better position with greater rewards with some other corporation. A man in the city's service is interested largely in retaining his connection with the political elements which got him the place so that he may retain it or possibly be advanced. He knows that his advancement cannot be as a reward of merit.

Would those of you who favor municipal ownership of public utilities invest, or direct the executors and trustees of your estate to invest, your savings in the securities of a municipally owned and operated utility when the payment of the interest and the return of the principal would depend solely upon the successful operation of the utility.

One of the speakers of last evening, the Honorable Mr. Maltbie, a member of the New York Public Utility Commission, said:

> Gentlemen, is it possible that we cannot be permitted to spend our money as we see fit; is it possible that the members of any municipality will permit such a condition in which a public utility commission, or anybody else, should say to us how we shall spend our money?

I say no! Spend your money any way you want to, but don't operate a public utility and make up your deficit by taxation without saying so. Then we will have no quarrel with you, gentlemen, but don't say you operate your utilities at a great profit and at lower rates than the public utilities privately managed in that or similar cities can or will do, unless you put in all the items. Don't make up the deficit from taxation or from some other fund.

Before I forget it, I wish to refer to a statement which was made by one of the speakers this morning concerning the wonderful result of municipal operation of street railroads in Glas-

gow and other foreign cities. He said you do not find over-crowding. Why? Because they will not allow the people to get on the cars when there are no seats. Will you stand it in your city? Will you help the railways to prevent over-crowding beyond comfort? You have probably heard that we have had a complaint of over-crowding on the street cars in the city of Milwaukee. We have it in every city. One of the railroad commissioners of the state of Wisconsin, told me he stood on the corner of one of the busy intersecting streets to observe conditions for himself, so that he would not have to rely upon the reports of the company's inspectors or would not have to rely upon the reports of his own inspectors, and there were two cars, within ten feet of each other, destined for the same place, the first one crowded, the second one with room in it. A man brushed by him to get on the crowded car and the commissioner said, "Wait, take that other car; it is going to the same place," and the man said to him, "Get out of the way; I want this car." That is what the American man wants; he wants "this car" and he is going to have it.

Do you know why we have congestion in these American cities? It is due to the fact of the mistaken policy, I honestly believe, of the construction of high office buildings. Can you have, in any city, office buildings within an area of less than a mile which contain 5,000, 6,000, 7,000 or 10,000 people, and have all of them present themselves for transportation within a short space of time without over-crowding the cars, and can your municipally operated railroads provide cars enough for them to take care of them without crowding? You cannot put cars enough upon the rails. If you put them as close together as beads on a string and run them around in a circle, you cannot prevent over-crowding.

Mayor Mitchell (of New York City) spoke last night of the trouble they have with the traffic situation in the city of New York. Any system of transportation which is devised in New York City, or in any other city similarly situated, is inadequate before it is completed, due to the fact that the population increases and the congestion increases more rapidly than the transportation facilities can be provided. Look at the subway. They were going to take care of 400,000 people per day. That was going to solve their transportation problem. It seemed to be the millenium, as to transportation, but the subway was not

completed before it was inadequate. They had to lengthen the platforms and lengthen the trains. They spent hundreds of thousands of dollars in order to take care of the people who presented themselves. That is the reason for over-crowding, and will always be so, whether municipally operated or privately operated.

Now, gentlemen, I do not think any of you will claim that the public utilities, privately owned, inspired the report of Mr. Mahone, recently published, he being the known representative of the labor unions, among the street railway employees. He has recently returned from Europe, and I will read a portion of his report. It may be familair to you, but perhaps if I read it, you may remember a little of it, and it refers to the operation of the street railway in Glasgow, which the gentleman referred to this morning:

> Glasgow and suburbs have more than a million population, with 194 miles of street car tracks. Cities with one-fourth the population in this country have much more trackage. The fares on the Glasgow system vary from one cent to fourteen cents, according to distance. The average ride for one cent is 1.15 miles, and so on up to the fourteen-cent fare, when the average ride is 14.48 miles. Fares are collected on the zone system. When a passenger rides from one zone into another he pays an additional fare. Of a total of 336,654,624 cash fares realized by the Glasgow Corporation last year, 211,462,484, or 62.81 per cent, represented one-cent fares. (Mahone Report.)

Does that make for distribution? Does that make for healthful, happy, moral living? It makes for congestion, gentlemen. The working man must live near his business if the fare which he must pay in order to ride from his home to his place of work is fixed as in Glasgow.

> This is claimed to be proof that the public is enjoying cheap fares. This is not correct, for the Glasgow system, like all other European cities, in which the systems are municipal and private, does not issue transfers, and a passenger may ride on several lines to reach his destination and have to pay an additional fare on each. On every line he is a cash passenger, and helps to swell the total class of fare he happens to pay, so that the so-called cheap fare of Glasgow, as of Europe generally, is not so cheap when the small distance it covers is considered, and certainly not cheap when compared with the buying power of the workers as reflected in the impossible wage they receive. (Mahone Report.)

If the members of this conference really desire to save the public money, I think their attention should first be directed toward securing an efficient and economical management of the affairs which properly belong to the municipality. There is plenty of opportunity in that field, and when it can be shown that those affairs are efficiently and economically conducted it will be time enough to consider taking on the burden of operating public utilities.

Everything which is claimed by the most earnest advocate of municipal ownership can be gained by private ownership under regulation. The government's duty is to govern and control and not to serve. Nothing should be undertaken by the government which can properly be done by private persons. To do so puts the government in a position which it should not occupy, and removes from public endeavor some of the proper opportunities for gain and advancement.

It is said that regulation is not efficient and that public utility owners advocate regulation because they fear municipal ownership. Those who say that regulation is unsatisfactory base it entirely, I believe, upon the fact that it is their view that regulation means a reduction in rates in every instance, and the placing of as many burdens upon the utilities as mortal man can conceive. And when an application for reduction in rates or an increase in service is made, and the imposition of any additional burden is refused by a commission—then it is claimed that the commission's control is a failure.

As to the other claim that public utilities welcome regulation only because they fear municipal ownership, I have to say that my acquaintance with the managers of public utilities leads me to believe that their willingness to submit any differences they may have with the public to a commission for decision is not due to the existence of a fear of municipal ownership, but that it is due to the fact that they are willing to have their differences decided by any impartial body removed from local influence.

Some gentlemen, among whom I may mention Mr. J. Alden Smith, Dean of the Graduate School of the University of Wisconsin, Mr. Delos F. Wilcox of New York and Professor Pond in *A Treatise on the Law of Public Utilities* state that regulation is a failure and advocate municipal ownership. A reading of their articles shows that their belief that regulation is a failure is due to the fact that municipalities do not secure all that they demand, and one of them advocates that regulation should be by the municipality. Those of us who have had experience with regulation by municipality know what that means. It means that every common council will, if it is within its power so to do, reduce rates charged by every utility within the corporate limits, and without any proper investigation being made. Ordinances increasing the service on any and all street railway

lines in the city will be passed in the shortest space of time. Ordinances reducing telephone, electric and gas rates would be passed with the same facility and speed. Legislatures are prone to that very practice. You are all familiar with the fact that notwithstanding that New York had a commission which had charge of railroad rates, the legislature passed an act reducing the passenger rates. This was so manifestly unfair that Governor Hughes vetoed the measure; but, unfortunately, we cannot always have a governor or other chief executive with that courage.

In the state of Wisconsin, the railroad commission in response to a petition, investigated the question of the steam railroad passenger rates, and after careful investigation decided that two and one-half cents per mile was as low as they could be reasonably reduced; but the legislature, without making the slightest investigation and at the instance of a man who desired to make political capital for himself and his party, introduced a bill and passed it in record-breaking time, reducing the passenger rate to two cents. The people had the rate but the companies could not afford the service that had theretofore been given by them, and the public have been obliged to put up with less frequent service.

Among the reasons against municipal ownership may be stated the following:

1. Public officials in charge will not have had the necessary experience and training.

2. Extensions of service will be made for political reasons, often into territory where the business would not afford a return upon even a fair proportion of the cost of the extension.

3. Corruption will not be decreased but will be increased.

4. Employees will not hold their places on merit but by favor and will have no incentive to improve.

5. Public service will be less even. The policy and plan of operation and extension of the utility will be changed with change of administration.

6. Politics will enter into every branch of the service to the detriment of the service.

7. Taxes will have to be increased to make up the deficit caused by operation and to pay for costly mistakes.

8. The individual employee will not have a reason for giving the best there is in him. He can gain nothing by increased effort or showing ingenuity.

9. The public will gain nothing in service or rates and will lose as to both.

10. If a municipality once assumes such an undertaking it must assume others. The history of other countries shows that it cannot stop.

To have public utilites operated by municipalities is to destroy one of the greatest incentives which moves men to their highest endeavors and is the true source of all progress. Having undertaken the operation of public utilities experience of other countries shows that they cannot stop; that they must engage in other lines of endeavor. The government should confine itself to its true purposes, namely to control and regulate. It should not serve. The hope and desire for gain—for material advantage—is what makes for all material progress; but for it we would still be ploughing with the stick, tracing our history upon a fragment of stone with the strong bone of some animal we had slain. America would not have been discovered and the people of the earth would be still stumbling along in the darkness of profound ignorance with no pride in the past and no hope for the future.

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